

Prevention of Dutch Fraud Cases

A multiple case study on the effectiveness of internal control
in the process of financial statement fraud prevention.

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Abstract

This research project examines why internal controls in Dutch financial statement fraud cases were unable to prevent such fraudulent events from happening. Performing a multiple case study on Dutch fraud cases pointed out two important findings. First, the applicability of the Fraud Triangle and other fraud theories to the cases of Dutch fraud analyzed during this study. Second, it was found that management override is one of the main reasons as to why internal controls are insufficient. Internal controls are sufficiently able to prevent low levels of employment from committing fraud. However, an increase of the level of employment causes a decrease in the effectiveness of internal controls. This research recommends that next to internal controls, organizations should focus on creating an environment in which it becomes impossible for employees to rationalize fraudulent behavior. To make sure internal controls are effective the right ethical culture should be implied. The right ethical culture prevents management override, which was found to be the greatest weakness of internal controls in this study.

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Preface

This master thesis is written to complete my Master of Science (MSc) Business Administration at the University of Twente.

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1. Introduction

*“More money has been stolen at the point of a pen than at the point of a gun.”
Frank Schmallegger (1991).*

Major cases like Enron and WorldCom have made the world aware of the severity of fraud. In fact, fraud is seen as one of the biggest issues in business today (Gullkvist & Jokipii, 2013). When the world realized that a company like Enron was able to lose 70 billion dollars because of fraud, it caught everybody's attention (Cotton, 2002; Rezaee, 2005). However, not everybody knows the exact meaning and practice of fraud. People consider fraud as ‘cooking the books’, but actually have no idea of when something is fraud and how it is done. For example, taking a pen home from work is considered to be a form of fraud. A better understanding in fraud seems necessary, considering the fact that in 2013 the approximate worldwide loss of revenue to fraud is considered 3.7 trillion dollars (ACFE, 2014). The fact that US based companies are involved with enormous damages done by fraud will come as no surprise. The fraud at Enron, WorldCom, Qwest, Tyco, and Global Crossing accumulated to an estimated 460 billion dollars loss of market capitalization (Cotton, 2002). To put this in perspective, this is more than half of the total revenue of the Dutch economy in 2015, which is ranked 17th of the world (KNOEMA, 2015). This has resulted in countless research done on fraud prevention, detection and deterrence (Albrecht & Albrecht, 2004; Albrecht et al., 1984; Gupta & Gill, 2012; Hogan et al., 2008; Kennedy, 2012; Kranacher et al., 2010; Rezaee, 2005; Shanmugam et al., 2012), and on when and why perpetrators commit fraud and its effects (Beatty et al., 2013; Brennan & McGrath, 2007; Dellaportas, 2013; Dorminey et al., 2012; Free & Murphy, 2015; Gullkvist & Jokipii, 2013; Wolfe & Hermanson, 2004). Most of this research is focused on the largest economies and countries. Brennan & McGrath (2007) even defined the continent Europe as one economy in their study. However, there has only been little research focused on small economies.

One of those small countries that has had its fair share of fraud is the Netherlands. The fraud related bankruptcy of Imtech put 23,000 people's jobs on the line in several countries and cost investors 1.1 billion euros (Nods, 2015). This points out one of the major issues with fraud, namely the perception of investors. “Capital markets participants (e.g. investors, creditors, analysts) make investment decisions based on financial information disseminated to the market by corporations” (Rezaee, 2005, p. 278). Disclosures made by a firm in a specific industry can have spillover effects on the investments made by other firms (Beatty et al., 2013). Another interesting fact about fraud is that it is not always done intentionally. Perpetrators commit a fraudulent act without knowing what they did was wrong or never having meant to do so. Only a quarter of the fraud cases are considered to be intentional; the other three quarters are not necessarily intentional (Schrand & Zechman, 2012).

To prevent intentional fraud as described by Schrand & Zechman (2012), the Fraud Triangle was introduced by Cressey (1950), and elaborated on over the years (Albrecht et al.,

1984; Coleman, 1987; Dorminey et al., 2012; Ramamoorti et al., 2009; Wolfe & Hermanson, 2004). Given the right circumstances, anybody could be capable of committing fraud (Morales et al., 2014). A combination of opportunity, pressure, and rationalization is considered to be the main reason that fraud occurs (Dorminey et al., 2012). Pressure and rationalization involved with fraud are hard for a firm to have any influence on (Shanmugam et al., 2012). However, internal control firms can prevent the opportunity of committing fraud (Davis & Pesch, 2013). Proper application of internal control systems not only ensures the validity of assets and records, they also create a monitored work environment where efficiency and efficacy are encouraged (Shanmugam et al., 2012). So how is it possible that there is research on how internal control should be implemented, but still fraud cases there come to light every day? Rezaee (2005) and Brennan & McGrath (2007) have tried to answer this question for Europe, Australia, and the United States. By studying fraud cases that occurred in the Netherlands, this research will aim to find an answer to the following question for countries with smaller economies.

How is it possible that internal controls failed to prevent financial statement fraud in the Netherlands?

To help provide an answer to this research question, several sub-questions have been derived. Based on the literature review three questions will be formulated that test the theory on financial statement fraud. First, Q1: To what extent does CEO/CFO/Director activity in financial statement fraud increase the amount of money involved with the fraud? Second, Q2: Is financial statement fraud a crime of poverty in the Netherlands? And third, Q3: To what extent is an individual's function/position within a firm negatively correlated with the efficacy of internal controls? The results that are found from the data will also answer two more questions. First, why were the internal controls applied to the Dutch fraud cases insufficient? And second, why was the fraudulent behavior of the perpetrators at Dutch firms not noticed?

The main goal of the research is to find out why internal controls in fraud cases in the Netherlands failed to prevent fraud. This will be done by assessing several cases of fraud that happened in the Netherlands. The findings will be compared to the theory on fraud to see whether these theories also apply to the Netherlands. Based on decisions made by the Dutch court, cases are selected where fraud has occurred. The research will focus only on cases that happened in the Netherlands, allowing a painstaking investigation on the applicability of fraud theory in this particular country.

This study identifies two key insights related to the theory of fraud and fraud prevention. First, it provides an application of fraud theory on a small economy, by shining its light on the fifteen fraud cases that were studied. Second, it finds that internal controls seem to contribute less when the employment level gets higher. Internal controls are sufficient when preventing lower level employees from committing fraud. However, higher level employees seem to act like there are no controls applied to them at all. Internal controls for these levels of employment are insufficient. Whenever someone in that position feels like committing a fraudulent act, there are

no controls stopping them. This is also why the AICPA (2005, 2016) describe management override of internal control as the Achilles heel of fraud prevention. Eventually the research project contributes to the theory on financial statement fraud prevention and the appliance of internal control. Also, it points out that there is still research to be done in the field of internal controls. Why is it so easy for managers to override the internal controls that are applicable to them? As a countermeasure for management override this study finds the answer in the (ethical) culture of an organization. According to theory and practice, this is the best way to prevent management override from taking place.

Assessing the Dutch cases will give an insight on the fraud problems in smaller economies. Combining the works of Rezaee (2005) and Brennan & McGrath (2007) and implementing it on a completely new and unique set of data, the results will contribute to the theory on fraud prevention. The results can be of assistance to other Dutch companies as to how they implement internal controls. Using fifteen case studies, this paper will explain how and why these perpetrators committed fraud and why internal controls were unable to prevent them from taking these actions.

Following this introduction, the theory on financial statement fraud will be discussed. Chapter 2 will be a literary review that will answer to the how, when, and why of financial statement fraud. Also, an explanation of internal control and how it should prevent financial statement fraud will be given. This will provide an answer to the first two sub-questions. The chapter also provides three questions that will be tested, which are all related to the fifteen case studies. Chapter 3 will be explaining the methodology, addressing the fifteen case studies. Chapter 4 presents the results and answers the questions that resulted from the literature review based on these results. Chapter 5 discusses the results that lead to answers for the first and second sub-questions. Finally, chapter 6 sums up the conclusions, limitations, and any future research suggestions that result from this research project.

2. Literature Review

The concern of financial statement fraud has been with the auditing community for some time now, trying to design internal control systems that should help preventing the fraud. However, the research on fraud has been a more recent occurrence (Free & Murphy, 2015). The fraud risk apparatus, a collection of anti-fraud offerings, is a more recent phenomenon (Power, 2013). In the period 2006-2010 there has been a sharp spike in the research on fraud risk (Power, 2013). This period represents a growing body of research in accounting that focuses on fraud (Braithwaite, 2013; Davis & Pesch, 2013; Murphy, 2012; Williams, 2013; Stolowy et al., 2014). Although there have been some issues with estimates regarding the costs of fraud, and it is acknowledged that fraud is a great cost burden for organizations and society (ACFE, 2012; Ernst & Young, 2003; KPMG, 2012; PwC, 2011). The chapter will be structured as follows. In 2.1 it will be discussed what financial statement fraud actually is, and a comparison will be made to other forms of fraud. In 2.2 there will be an overview of accepted theories on fraud. Explaining how and why fraud is being committed. Part 2.3 will discuss the prevention of fraud and the measures and methods that are part of this prevention. Internal control is one of these prevention measures and will be discussed here. Part 2.4 gives an insight into the rules and regulations that are at hand in several countries relating to financial statement fraud.

2.1 Financial Statement Fraud

Financial statement fraud can be described as an attempt by firms to deliberately mislead the users of their financial statements. “Financial statement fraud is any intentional act or omission that results in materially misleading financial statements” (AICPA, 1987, p.8). Think of investors and creditors, who are tricked with materially misstated financial statements signed off on by the firms (Rezaee, 2005). At the start of the 21st century there was a wave of financial scandals that raised awareness of fraud (Hogan et al., 2008). This act of untrustworthiness is claimed to be as old as the first trade that was ever made. Market participants that were not all that fair have existed since mankind began trade (Woodward et al., 2003). The British East India Company is seen as the world’s first public company that had shareholders. Unfortunately, this is also seen as the first public company where financial statement fraud occurred (Robins, 2007). Another interesting fact of fraud is that Smith (1776) noticed the problems that fraud caused to modern corporations (Dorminey et al., 2012).

2.1.1 Types of Fraud

Financial statement fraud can be divided into two forms: fraudulent financial reporting and misappropriation of assets (Gullkvist & Jokipii, 2013). Fraudulent financial reporting relates to the intentional misstatements, which consist of omissions of amounts or disclosures on the financial statements, with the sole goal of deceiving the users of these financial statements. Misappropriation of assets is related to employees stealing assets from a company. Most of the time these are relatively small and immaterial amounts (IFAC, 2004).

Fraudulent financial reporting (FFR) is referred to as 'management fraud' whereas misappropriation of assets (MoA) is referred to as 'employee fraud' (Gullkvist & Jokipii, 2013). Fraud as a whole is considered to be a white-collar crime. Research has pointed out those white-collar criminals either act from personal reasons, or on behalf of the company (Romney et al., 1980). An important motivation to manipulate the actual earnings of a firm is to attract external financing at low cost (Dechow et al., 1996). Another study shows that restated financial statements increase the likeliness of a CEO having stock options that are considered to be "in the money".

Other findings were about firms that have debt covenants, conditions of borrowing that need to be met. Firms that try to raise debt or equity capital and firms where the CEO is also Chairman of the Board are more likely to have financial misstatements (Efendi et al., 2007). Stock options are also seen as incentives to misstate the financial statement. CEO income is depending on how the stock performs, which could lead to fraudulent behavior (Burns & Kedia, 2006). Companies that have been involved in backdating stock options also are often involved with fraudulent behavior (Hogan et al., 2008; Lie, 2005).

2.1.2 How to Fraud

How financial statement fraud could occur is explained by the following examples. Important to know is that these are not the only possible ways in which financial statement fraud can occur. It just gives an insight into possible examples. For instance, financial statement fraud occurs when material financial records, supporting documents or business transactions have been falsified, altered, or manipulated. Also, when the information that is used to build financial statements on suffers from intentional material misstatements, omissions, transactions or misrepresentations of events. Another scenario that might occur is when information regarding accounting standards, principles, practices, or financial information is intentionally omitted from disclosure or the presentation is inadequate (Rezaee, 2005). Some examples of financial statement fraud are presented here.

Earnings manipulation is one of these methods used to fraud. This type of fraud is described as a violation of accounting principles by overstating reported earnings (Dechow et al., 1996). The most common way of committing financial statement fraud is the manipulation of revenues and/or accounts receivable (Albrecht, 2003). This can be done by understating doubtful accounts, which leads to an overestimation of receivables. A method to manipulate revenues can be by not recording returned goods, or recording them in a different period. Sales and therefore revenue will seem to be higher (Albrecht, 2003).

The method that is second to revenues and account receivable manipulation is the overstating of inventory. A way to do so is double counting of certain inventory. Inventory is valued at a higher price than it should actually be valued at. This way it seems there is more value to the company than there actually is (Albrecht, 2003).

Third on the list is financial statement fraud through the understating of liabilities. For example not recording accounts payable. Liabilities seem to be low and therefore interesting, even though they are not. Another method is the recording of revenues that are not yet earned by the company. Until the revenues are received, there is no certainty that these revenues will be obtained. The liability gets understated because part of the liability has already been recorded as revenue (Albrecht, 2003).

Asset overstatement is the fourth most common method to commit financial statement fraud. For example the overstatements of current assets making it seem they are more valuable than they actually are. Another method is failing to record depreciation or amortization expense. Assets will seem to hold more value than they actually do, causing financial statement fraud (Albrecht, 2003).

Last, there are disclosure frauds that lead to financial statement fraud. This category can be divided into three methods. First, there is the misrepresentation about the nature of the company. The company or its products are represented in a way that differs from the actual company and products. Second, a wrong representation of discussions of the management and other non-financial statements. And finally, there is the misrepresentation in the footnotes that apply to certain financial statements. Wrong representations can create a better picture of a company than it is in reality (Albrecht, 2003).

These examples show people committing fraud either out of greed, as a last resort, or misrepresentations as a way to mislead investors and save a company. The first two examples are from a personal perspective, as for the saving of a company kind of sounds like a crime that is committed with public interest in mind (Wells, 2001). Wells (2001), among others, also emphasized the importance of three factors that led to the committing of fraud. Opportunity, pressure, and rationalization are considered to all be in place at every case of fraud (Albrecht et al., 1984; Cressey, 1950; Cressey, 1953; Coleman, 1987; Dellaportas, 2013; Dorminey et al., 2012; Free & Murphy, 2015; Hogan et al., 2008; Kranacher et al., 2010; Morales et al., 2014; Ramamoorti et al., 2009; Wells, 2001; Wolfe & Hermanson, 2004). This relates to the Fraud Triangle, which will be discussed in part 2.2 of this thesis. Of all the senior management the CFO, who oversees the process of financial reporting of a firm, has the most impact on accounting decisions. The CFO has the ability to choose accounting methods and decide what accounting changes can or need to be made (Ge et al., 2011; Geiger & North, 2006; Mian, 2001).

2.2 Theories of Fraud

Considering the fact that fraud seems to be as old as the first trade of mankind (Woodward et al., 2003), there is a lot of theory on the fraud already. The widely accepted theory on what makes a person commit fraud is the Fraud Triangle (Albrecht et al., 1984). A detailed description of what the Fraud Triangle is, and it's evolution over the years is provided here to show why it is so widely accepted. Alongside, prior research that has created, or influenced, new frameworks

that should explain fraudulent behavior, based on the Fraud Triangle, will be discussed (Albrecht et al., 2006; Albrecht et al., 1982; Albrecht et al., 1984; Carcello et al., 2010; Cressey, 1950, 1953; Coleman, 1987; Dechow et al., 1996; Dorminey et al., 2012; Hollinger & Clark, 1983; Kassem & Higson, 2012; Kranacher et al., 2010; Marks, 2009; Pavlo & Weinberg, 2007; Ramamoorti, 2008; Ramamoorti et al., 2009; Schrand & Zechman, 2012; Silver et al., 2008; Sutherland, 1940, 1945; Wolfe & Hermanson, 2004). Providing an answer to the question why perpetrators commit fraud, and a clear view on the leading theories that are available on the fraud phenomenon.

2.2.1 The Fraud Triangle

Fraud is as old as the trade among human beings. Remarkably, it took them rather long to actually really come to an understanding and build theories around it. Even though the problem of fraud had already been pointed out by Smith in 1776, the first real step towards fraud theory was made by only made in 1940 by Sutherland when he created the term “white-collar crime” (Piquero, 2012). Sutherland (1940) can be seen as the first who recognized the crimes that had nothing to do with violence, but had everything to do with the upper class committing crimes in the world of economics and business (Albrecht et al., 1984). The name white-collar crime was related to the white collars the upper class used to wear at the time (Sutherland, 1940). The white-collar criminal is not the boss of some kind of criminal organization, but the person who violates the trust investors have in them to do the right thing. At the time it was considered that poverty was the number one reason for perpetrators to commit fraud. However, it seemed that with white-collar crime perpetrators were only seldom poor (Sutherland, 1940; Weisburg et al., 2008). The law had a different implementation for white-collar criminals than it did for other criminals.

There were three reasons as to why white-collar criminals were treated different than other criminals, namely “the status of the business man, the trend away from punishment, and the relatively unorganized resentment of the public against white-collar criminals” (Sutherland, 1945, p. 137). The first factor that caused a difference in the implementation of law was the status of the business man. The people that were supposed to take action against these white-collar criminals were afraid of the business men. Business men paid for the campaigns of those responsible for criminal justice. Business men were respected for who they were. So it would not be a smart move to take action against the people that should help one get re-elected. Moreover, they were not considered to fit the description of a criminal. These arguments ran into some public trouble, of people who believe the justice system should treat everybody equally (Sutherland, 1945). The high societal status of white-collar criminals made society overlook the damages done by their crimes (Meese & Larkin, 2012). The second reason relies to the fact that there was a trend that led convictions away from punishment. This resulted in a different approach to white-collar crimes. This was because of the status business men had, combined with the fact that there were little precedents. This trend away from punishment caused penal methods to be replaced by non-penal methods. The law was being changed in such a way that the

crime would not stick to the white-collar criminals. White-collar crimes were often not entitled crimes (Sutherland, 1945). White-collar crime was perceived as being a victimless crime (Corcoran et al., 2012). Third, the fact that white-collar crimes are not such obvious crimes as for example, manslaughter is. For example, in the case of manslaughter it is 'easier' to define the perpetrator(s) and the victim(s) of such crimes. The problem with white-collar crimes is that it is not as obvious. A lot of people could be part of the problem, but also the victims of these crimes are not clear. This makes it much harder to create one image of crime and perpetrator that everybody follows (Sutherland, 1945). However, Brown et al.(1996) and Rosoff et al. (2002) found that the costs of white-collar crime are far more exceeding the costs of theft and robbery.

The foundation for theories on white-collar crime was picked up on several years later. When a Ph.D. student in criminology by the name of Cressey, who was mentored by Sutherland, did some noticeable findings on white-collar crime while conducting interviews with people that were in jail because they committed fraud (Dorminey et al., 2012). He found that the violation of trust could not be attributed to a single event. After conducting the interviews, it became clear that the violation of financial trust by criminals was the result of a sequence of events (Cressey, 1950). The sequence of these trust violations are as follows, (I) the first criteria in the sequel relates to "shareability" of a financial problem. In this case, there is a non-shareable financial problem as the step in the sequence. A non-shareable financial problem results in (Choo & Tan, 2007; Cressey, 1950; Daly, 1989; Workley & Cheeseman, 2006) (II) a stimulus to violate a position of trust. Important is that, for a person with a non-shareable financial problem, this person has some knowledge about trust violation. This knowledge can then be applied to their own situation, which becomes a stimulus to violate their position of trust (Cressey, 1950; Choo & Tan, 2007; Dellaportas, 2013; Skousen et al., 2009). Finally, (III) the rationalization of the person that has the non-shareable financial problem. When the first two steps of the sequence have been fulfilled, the person's ability to rationalize the act of violating trust will decide whether or not this person violates the trust (Cressey, 1950; Choo & Tan, 2007).

In later work, Cressey (1953) once more emphasizes "trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware that this problem can be secretly resolved by violation of the position of financial trust, and are able to apply their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conception of themselves as users of the entrusted funds or property" (p. 191). In short, it was hypothesized that for fraud to occur, there had to be perceived pressure (non-shareable problem), perceived opportunity (position of trust), and rationalization. This became the base for the later created Fraud Triangle (Albrecht, 2014). The first two steps in the sequence seem pretty obvious, pressure that lures a person into committing a crime, and the opportunity to perform such a crime. However, rationalization may still seem a bit vague. It can be explained as the fraudster seeking a way to justify the fraudulent action he or she will commit. For some reason, fraudsters want to keep feeling like they are not performing an immoral action (Cressey, 1950; 1953).

As mentioned earlier, the findings of Cressey (1950, 1953) have led to the creation of the Fraud Triangle as shown in Figure 1 (Albrecht, 2014; Dorminey et al., 2012). Therefore Cressey (1950, 1953) is credited with being the father of the Fraud Triangle (Albrecht, 2014; Wells, 2005). The most overwhelming pressures were considered to be high personal debts or financial losses. Other common pressures were those of a supervisor at work demanding results that seem impossible to the employee (Albrecht et al., 1982; Beasley, 1996). This allows a distinction between two kinds of pressures, namely the pressure to commit fraud to increase company performance, or the pressure to commit fraud against the company (Albrecht et al., 1982). Opportunities for committing fraud are created by individuals themselves, or by the company due to neglecting internal controls (Albrecht et al., 1982; Choo & Tan, 2007).

Regarding rationalization, individuals can be put into two categories. Namely, the individuals that are honest, have high integrity, and would not do such a thing unless they have a real good reason. The other group consists of people who are dishonest, have low integrity, and therefore would take their chance of committing fraud if the possibility is there (Albrecht et al., 1982). In his article Albrecht et al. (1982) states that he and his colleagues concluded that the interaction of these three factors determine whether or not a person will commit fraud. Although the three elements of the Fraud Triangle are credited to Cressey (1950, 1953), Albrecht was the first to come up with the name of the Fraud Triangle. He did so after one of his students attended him of the three elements of fraud being similar to the three elements of the so-called fire triangle. So the name Fraud Triangle is related to the fire triangle (Albrecht, 2014).

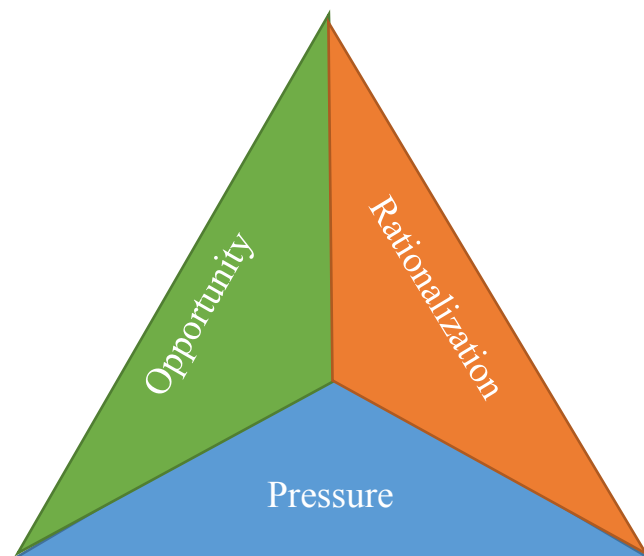


Figure 1: The Fraud Triangle, adapted from Dorminey et al. (2012) p. 558.

Following the works of Cressey (1950, 1953) and Albrecht et al. (1982), Hollinger & Clark (1983) supported the rationalization element, perpetrators being able to commit fraud from a

moral perspective. The workplace is of great influence to the fraudulent behavior of employees. If employees have to work in a workplace with bad working conditions, their urge to commit fraud increases. They have the feeling that the workplace “owes me”, which makes it easier for perpetrators to rationalize fraudulent behavior. When the workplace does not treat me right, why would it be vice versa? (Dellaportas, 2013; Hollinger & Clark, 1983). Tables 1-3 give an overview of some reasons perpetrators might have for committing a fraudulent action.

Perceived Pressures	
Financial	Vices
<ul style="list-style-type: none"> • Greed • Living beyond one’s means • High personal bills or debt • Poor credit • Personal financial losses • Unexpected financial needs • Continuation/viability of business 	<ul style="list-style-type: none"> • Gambling • Drugs • Alcohol • Extra-marital relationships
Work related	Other
<ul style="list-style-type: none"> • Insufficient recognition for job performance • Dissatisfaction with job • Fear of losing job • Being overlooked for promotion • Feeling under-valued 	<ul style="list-style-type: none"> • Creating the appearance of success • Ego, power, and control • Influence of others

Table 1: Examples of perceived pressures, adapted from Dellaportas (2013) p. 31.

Table 1 represents the perceived pressures for an individual to commit fraud. Pressures are the first element in the Fraud Triangle. They can be described as the common motivators for an individual to perform a fraudulent act. Table 1 creates four categories of pressures that could arise. Financial pressures, vices, work-related pressures, and other pressures. Financial pressures are considered to be the base for most fraud cases. A financial strain can push an individual into committing fraud (Cressey, 1953). For example the pressure to keep and/or increase investor confidence that is related to the bonus of certain employees. The second category of perceived pressures is that of vices. Mainly gambling and drugs are great motivators for offenders to commit fraud (Dellaportas, 2013). There also is the category of non-financial pressures. The non-financial pressures mainly exist of work related pressures that motivate pressures. The feeling of deserving more or better recognition creates an incentive to take what is yours or for example get back at someone or the company (Ramamoorti, 2008). The last pressures category represents other pressures. These pressures relate to the individuals, who create their own unique pressures (Dellaportas, 2013). An example is seeing neighbors buying a new car and feeling the need to keep up and buy a new one too. When the means are not available, this creates a motivation or pressure to commit a fraudulent act.

Perceived Opportunities
<ul style="list-style-type: none"> • Lack of or circumvention of controls that prevent and/or detect fraudulent behavior • Inability to judge the quality of performance • Failure to discipline fraud perpetrators • Lack of access to information • Ignorance, apathy, or an incapacity to detect fraud • Lack of audit trail

Table 2: Examples of perceived opportunities, adapted from Dellaportas (2013) p. 31.

Table 2 shows some examples of opportunities for offenders to commit fraud. The definition of opportunities is that an offender is able to commit and conceal fraud (Dellaportas, 2013). Lots of situations could lead to opportunities to commit fraud. An example is that of weak internal controls, which is considered to be a major attribution to fraud (KPMG, 2006, 2008, 2010). On the other hand, internal controls are also responsible for detecting the greatest number of frauds (Dellaportas, 2013). A problem with fraud is the level of punishment. The severity of financial statement fraud is not as clear and obvious as that of a violent crime or terrorism. That is why these crimes get priority over white-collar crimes. As a result, the low punishment creates opportunity for offenders, because even if they get caught the penalty will be worth it (Dellaportas, 2013).

Rationalizations
<ul style="list-style-type: none"> • The organization owes it to me • I am only borrowing the money – I will pay it back • Nobody will get hurt/this is a victimless crime • I deserve more/I deserve the perks as a reasonable compensation • It's for a good purpose/cause • We'll fix the books • Something has to be sacrificed – my integrity or my reputation • Everyone is getting rich, so why shouldn't I? • The company can afford it • It's not really a serious matter • There were no internal controls so I wanted to show them how easy it was • I wanted to improve my standard of living • They did not treat me with respect, morale was low, so I wanted to get even

Table 3: Examples of common rationalizations, adapted from Dellaportas (2013) p. 31.

Table 3 explains the perceived rationalizations. What reasoning offenders have that makes them justify their behavior and takes away their doubts as to offend or not (Dellaportas, 2013). Rationalization makes the offenders believe they did nothing wrong while committing the

fraudulent act (Coleman, 1987). An example can be that offenders feel like they should have been compensated better by their employer. Because the employer will not do it, the feeling increases that the company owes them something and they will only get it if they take it themselves. The offender feels like the compensation is righteous and will therefore not see the fraudulent act as a wrongdoing (Dellaportas, 2013). An example of how the Fraud Triangle works based on these three tables to clear up the theory. Imagine an individual that is living beyond one's means. Spending money that is somebody else's should come from somewhere, creating a pressure or motivation for fraud. When this individual is in a position where there is a lack of controls that prevent fraudulent behavior, this creates an opportunity to commit fraud. Finally, arguments like "I am only borrowing the money and will pay it back", or "everyone is getting rich, why shouldn't I?" create a reasoning for that individual to justify their behavior and end their doubts on whether or not to commit the act.

Three conclusions were drawn from a study done by Hollinger & Clark (1983), that (1) level of personal income is of no influence on the act of fraud. Fraudsters operate on all levels of income. (2) the more satisfied an employee is with their job, the less likely he or she is to commit fraud. And (3), which is perhaps the most interesting for this study, the fact that the level of control is negatively correlated with fraudulent behavior of employees. So when control goes up, fraudulent acting by employees decreases (Beasley, 1989; Choo & Tan, 2007; Hollinger & Clark, 1983).

The level of control is of great influence on the opportunity for fraudsters. When factors like weak internal control or the failure to discipline perpetrators are a reality at firms, the opportunity needed for fraud is enhanced (Albrecht et al., 2012). Especially weak internal controls have been found to be a major factor that attributes to fraud (KPMG, 2006, 2008, 2010). Dechow et al. (1996) found that firms that manipulate earnings have less independent boards, chairman and CEO are more likely to be the same person, CEO often is the firm's founder, and it is less likely that the firm has an audit committee. Several researchers have tried to improve or add on to the Fraud Triangle by Cressey (1950, 1953). As is imaginable, over the years research has shed light on the subject of fraud and critics have been trying to improve the Fraud Triangle (Kassem & Higson, 2012). From here on the evolution of the Fraud Triangle will be discussed.

2.2.2 The Triangle of Fraud Action

The Triangle of Fraud Action, contrary to the Fraud Triangle, focuses on the actions a person has to perform rather than the conditions under which fraud occurs (Lala et al., 2014). The Triangle of Fraud Action points out the difference between the white-collar criminal, whose actions are described by the Fraud Triangle, and the white-collar crime (Dorminey et al., 2012). Another name that has been given to the Triangle of Fraud Action is the Elements of Fraud (Albrecht et al., 2006; Kranacher et al., 2010). So as opposed to the opportunity, pressure, and rationalization components, the Triangle of Fraud Action's components are the concealment,

conversion, and the act (Albrecht et al., 2006; Kranacher et al., 2010; Lala et al., 2014; Ramamoorti et al., 2009).

Concealment can be described as the effort of concealing the fraud act. Examples are falsifying the books or destroying any files that can be seen as evidence. Conversion is the method of the fraudster to make unruly incomes look legit. These could include actions such as money laundering, for example. Finally the act, which relates to the method the perpetrator, has chosen to commit fraud. Some examples may be embezzlement, financial misstatements or material fraudulent reporting (Dorminey et al., 2012). The Fraud Triangle gives an insight into the person that should be considered a potential fraud risk. The Triangle of Fraud Action focuses more on the area within an organization where the perpetrator can commit fraud. This makes it a helpful tool in creating prevention, detection, and deterrence measures (Dorminey et al., 2012). Another aspect of the Triangle of Fraud Action is that it has three components that are observable. The pressure and rationalization of the Fraud Triangle are not observable in such a way (Ramamoorti, 2008). The Triangle of Fraud Action makes it hard for a perpetrator to deny the act (Lala et al., 2014). However, the fact that this is hard to prove does not mean that there is no fraud. The Triangle of Fraud Action can be helpful in proving the crime, because all of the elements can be observed (Ramamoorti, 2008).

2.2.3 The Fraud Scale

The Fraud Scale is the result of a study done by Albrecht et al. (1984) (Schuchter & Levi, 2015). After analyzing the Fraud Triangle, the study showed that it was difficult to predict fraud, and that the occupational fraudster, as a group, was difficult to profile (Kassem & Higson, 2012). The findings led to the Fraud Scale, which is similar to the Fraud Triangle, but replaces rationalization with personal integrity. The components of opportunity and pressure are, similar to the Fraud Triangle, the other two components (Albrecht et al., 1984). The theory behind these components is that it allows to modify the probability of fraud occurring. The scale has two arms, the left arm that contains high pressure, great opportunity, and low personal integrity. The right arm contains low pressure, lesser opportunity, and high personal integrity. If the scale tilts to the left, there is high probability of fraud occurring, because these conditions suggest a higher fraud risk. When the scale tilts to the right, the probability and risk of fraud become very little (Albrecht et al., 1984; Cancino, 2010). The Fraud Scale can be of assistance when trying to assess whether or not somebody would be able to rationalize the fraudulent act. Past behavior of an individual has consequences for future actions. If it may be concluded that an individual has low integrity, the probability of rationalization increases and so does the fraud risk (Albrecht et al., 1984).

2.2.4 M.I.C.E

Cressey (1950, 1953) argued that a person has certain financial problems when resolving into fraudulent behavior. However, recent fraudulent events have shown that individuals do not

need financial problems that are non-shareable to commit fraud. Several CEO's, CFO's, Board members, and other high function employees have been found guilty of fraud, even though financial problems were no issue for them (Dorminey et al., 2012). The first explanation to the phenomenon that perpetrators did not need a non-shareable problem was related to a competitive culture. Individuals that act in high positions have a kind of image that must be lived up to. The pressure of the competition on wealth and success may be a reason to commit fraud (Coleman, 1987). Following the work of Coleman (1987), research has been done into executive white-collar crime. Why would wealthy, influential, and prominent individuals within society risk a white-collar crime. The answer was found in the fact that social status can impose certain pressures that executive might feel the need to commit a white-collar crime. Even though from a financial point of view there is no issue or pressure for them whatsoever (Ramamoorti et al., 2009).

These findings, accompanied with other recent findings, have led to the creation of the acronym M.I.C.E. (Dorminey et al., 2012; Kassem & Higson, 2012; Kranacher et al., 2010). M.I.C.E. changes the pressure side of the Fraud Triangle, where the characters of M.I.C.E. all represent a motivation for an individual to commit fraud. 'M' stands for the pressure of money; the greed of an individual is the motivation to commit the fraudulent act. 'I' stands for ideology; which relates to the state of mind of a person. The performance of the fraudulent act does not go hand in hand with ideology issues that frequently. Some examples are tax evasion because individuals believe they pay enough already, or funding terrorists because it is believed they are doing the right thing. 'C' stands for coercion; the situation in which an individual does not want to commit fraud, but has no other options. And finally, 'E' stands for ego or entitlement; more money leads to more power which might be a good motivation for certain individuals (Dorminey et al., 2012; Kassem & Higson, 2012; Kranacher et al., 2010). M.I.C.E. provides investigators with a framework they can use when trying to find motives for perpetrators (Dorminey et al., 2012; Kassem & Higson, 2012; Kranacher et al., 2010).

2.2.5 The Fraud Diamond

The following theory does not focus on existing components that lack accuracy, but adds a new component to the triangle which turns it into a diamond. The result of this extra component is called the Fraud Diamond, in which the capability of a perpetrator is the extra component (Carcello & Hermanson, 2008; Tugas, 2012; Wolfe & Hermanson, 2004). Capability can be described as an individual's personal traits and abilities. These elements play a decisive role, because even if the other components are there, capability decides whether or not an individual commits fraud (Wolfe & Hermanson, 2004). Wolfe & Hermanson (2004) hold capability responsible for the multi-billion frauds that have happened prior to their research. According to them, the fact that all three components, opportunity, pressure, and rationalization, were at hand did not cause the fraud. The fraud only happened because there was an individual involved that was capable of taking advantage of the situation that was at hand.

One question seems to be critical in this issue, namely “who could turn an opportunity for fraud into reality?” (Wolfe & Hermanson, 2004, p. 39). An example of how perpetrators pass the Fraud Diamond is as follows. First there needs to be an incentive, which in this case can be an individual who wants to, has to or needs to commit fraud. Second, there needs to be an opportunity for a perpetrator to commit fraud. A weakness has been found in the system that is at hand, and the right person may be able to exploit leading to fraud. Third is the rationalization, the individual that has incentive and opportunity convinces himself that committing the fraud is worth the risk. And finally, the individual needs to possess the capability to commit an act of fraud. The individual has recognized the opportunity to commit fraud, and is convinced he has the necessary traits and abilities to pull it off (Dellaportas, 2013; Wolfe & Hermanson, 2004). Wolfe & Hermanson (2004) describe six components of the capability of a fraudulent individual. First, the individual’s position is of great importance. If the position does not allow an individual to commit fraud, the individual will not have the capability. Second, the individual needs to have the brains. When the opportunity has been recognized the individual must be smart enough to exploit. Third, the ego or confidence of the individual plays an important role. The individual must be certain of himself that he will not be caught. Fourth, the coercion skills the individual needs. This way, other people can be coerced into helping the fraudulent individual so that he will not be caught. Fifth, the individual must be a great liar. The individual has to be capable of lying consistently and keeping track of those lies. And finally, the individual must be immune to high levels of stress (Wolfe & Hermanson, 2004). Committing fraud can be going on for a very long period of time, and can therefore become very stressful (Pavlo & Weinberg, 2007).

2.2.6 Predator vs Accidental Fraudsters

Schrand & Zechman (2012) found that three out of 4 frauds that occur are accidental, not on purpose. As a result, the theory of the accidental fraudster was created. That individual, apart from having committed fraud, is considered to be a good person who does not break the law, and under normal circumstances would have never considered breaking the law in any way. These individuals are fully compliant to the Fraud Triangle (Cressey, 1950; 1953). However, some individuals are predators. They solve the consequences of one fraud with another, breaking the law time and time again (Dorminey et al., 2012). Research has shown that once a fraudster has committed for the first time, the rationalization becomes easier.

The fraudster becomes de-sensitized and once the line of committing fraud has been crossed, fraudulent behavior becomes kind of continuous until the fraudster gets caught (Beasley, 1998; Carcello et al., 2010). With respect to the Fraud Triangle, this predator behavior has some consequences. Pressure and rationalization become obsolete, resulting in only an opportunity that is needed for perpetrators to commit. Pressure and rationalization become arrogance and the criminal mindset. The act is not committed because of a need or pressure, but because they can and want to (Dorminey et al., 2012). These perpetrators are better prepared to mislead auditors and oversight mechanisms, because of their complex concealment schemes and the fact that they are well organized (Kranacher et al., 2010).

2.2.7 The A-B-C Model

The A-B-C analysis does not focus on the elements of the Fraud Triangle, but focuses on the probability of the fraudulent act under certain conditions. The A-B-C model was proposed by Ramamoorti et al. (2009). The A-B-C model works as follows: there are bad Apples, bad Bushels, and bad Crops. In the situation of the A-B-C model and fraud, the bad apple is considered an individual committing fraud. The bad bushel relates to collusive fraud, a group of perpetrators that may or may not be forced into the fraud due to management override (Silver et al., 2008). To clear things up a little, auditors can encounter two levels of fraud, employee fraud and management fraud (Hall, 2012; Tugas, 2012). The bad crop refers to cultural and societal mechanisms that have an influence on the occurrence of fraud (Ramamoorti et al., 2009). Especially the explanation given by Ramamoorti et al. (2009) on the bad crop is interesting. This insinuates that it becomes more likely for employees to commit fraud when unlawful behavior is in the culture and society of a firm, implemented by the top management. The A-B-C analysis has an influence on the probability of the perpetrator committing the crime (Ramamoorti et al., 2009).

2.2.8 The Fraud Pentagon

As an expansion of the Fraud Diamond, Marks (2009) constructed the Crowe Horwath Fraud Pentagon. This has added an extra component to the structure of the Fraud Diamond, arrogance in addition of competence, creating a pentagon (Dellaportas, 2013; Tugas, 2012). Comparing the 1950s business environment to that of the 2000s has shown some notable differences. Corporations have become more global, outsourcing more of their input, changes in authority, and a change from a set-up salary to a performance-based pay salary. Also corporate culture at corporations nowadays is more focused on wealth and fame. This causes some increased pressure on employees. And of course many businesses are no longer owner-managed (Marks, 2009). Therefore Marks (2009) expanded the Fraud Triangle to the Fraud Pentagon, adding 2 components: arrogance and competence. The arrogance of an individual relates to his or her lack of conscience. An attitude of superiority that an individual has which makes him think that the rules do not apply to him (Marks, 2009). The competence of an individual relates to the ability to perform a fraudulent act. Competence may be seen as an expansion of the opportunity component by Cressey (1950, 1953) (Dellaportas, 2013). It focuses on the ability of an individual to override internal and social controls to his advantage. The Fraud Pentagon splits the extra component of the Fraud Diamond into two new components, creating a pentagon.

The anti-fraud community has also used the Fraud Triangle to improve their theories. Namely, affecting the probability of fraud occurring, the anti-fraud community has come up with measures to prevent and deter. Prevention is related to reducing the opportunity for an individual to commit fraud due to controls. Deterrence is more about exploiting the fears of perpetrators. The fear of that person being caught and the fear of punishment have become very severe over

the years. Detection on the other hand occurs when the crime has already been committed, with procedures that recognize the crime (Dorminey et al., 2012).

2.3 Fraud Prevention

Whenever a problem occurs, people will try to find a solution and a way to prevent the problem. It is a common thought that preventing is better than healing. Of course this also applies to the problem of fraud. Based on the above mentioned theories on fraud, research has been conducted considering the prevention of financial statement fraud (AICPA, 2005; Dorminey et al., 2012; Gupta & Gill, 2012; KPMG Forensic, 2006; Kranacher et al., 2010). Important tools for the prevention of financial statement fraud are internal controls and ethical culture (COSO, 2011, 2013; Dellaportas, 2013; Kumar & Sharma, 2005; Peterson & Zikmund, 2004; Rezaee, 2005). Prevention is one of the three fraud measures and will be described below. In addition, a short introduction into the other anti-fraud measures: deterrence and detection (Dorminey et al., 2012), will be provided, while focusing on the prevention tools of internal control and ethical culture. What it is, how it works, and what it is supposed to do. Finally, there will be an elaboration on the field of forensic accounting. Forensic accounts investigate fraud or the suspicion of fraud.

2.3.1 Prevention, Detection, and Deterrence

Common anti-fraud measures are prevention, deterrence, and detection. Prevention and deterrence measures are in place with the purpose of reducing the opportunity for perpetrators. As for detection, this can only happen when fraud has been committed. However, this does not make it less important. Deterrence of the fraudulent can be created with a consistent and credible disciplinary system. When an organization has mandated meaningful mandates, this sends a message to all the possible perpetrators inside or outside the organization (KPMG, 2006a). The deterrence of fraud is related to the situation in which an environment is created that discourages people to commit fraud. Fraud deterrence works when “(1) the perception of deterrence is present and (2) potential perpetrators recognize that they will be punished when caught” (Dorminey et al., 2012, p. 573). Most important to deterrence is that the one(s) committing the fraud are aware that detection is likely and therefore chances of fraud activities are reduced (Dorminey et al., 2012). Detection consists of three parts: Financial statement audit, targeted risk assessment, and collusive fraud and management override. Financial statement fraud has been a significant concern for the auditing profession (Kranacher et al., 2010). Therefore it is important to create an audit plan which can help the auditor to uncover any vulnerable parts of the system that might give rise to fraud (Dorminey et al., 2012).

Fraud prevention is a measure which should stop the occurrence of financial statement fraud (Gupta & Gill, 2012). It reduces the risk of fraud and misconduct from occurring (KPMG, 2006a). The prevention of fraud consists of two main parts: internal control and ethical culture.

Most accountants focus on internal control as a key anti-fraud mechanism (Dorminey et al., 2012).

To help create an audit plan there are several methods that improve the prevention of fraud. One of these methods is to maintain a fraud policy. The idea is to create a fraud policy and maintain it to guide employees (Bierstaker et al., 2006). A template on how to create such a fraud policy is made available by the ACFE¹. The employees should sign an acknowledgement to make sure they understand it clearly. To be certain that the employees are informed, there should be training seminars and annual performance evaluations (Bierstaker et al., 2006). Another prevention method is the fraud vulnerability review (Bierstaker et al., 2006; Rezaee, 2005). Fraud vulnerability reviews investigate the level of exposure to fraud an organization has. There should be an assessment of the assets that are held and how they could be misappropriated (Bierstaker et al., 2006). It is important that these fraud vulnerability reviews are held frequently, e.g. every period, and on an ongoing basis. Alongside the fraud vulnerability reviews organizations should create an anonymous hotline for insiders and outsiders where it is possible to anonymously report fraudulent activities (Holtfreter, 2005; Rezaee, 2005). Another method is to perform background and reference checks on possible employees. This will show whether or not the person hired is an honest person or not (Bierstaker et al., 2006; Rezaee, 2005). Second checks are also relevant. Check the information that was told during the first check and see whether or not it corresponds to the information that is received in the second check. Sometimes personal files are not updated yet, but they can be updated later on. That is why a second check can be of importance (Bierstaker et al., 2006).

The task of establishing systems of prevention and detection is a job for management. This job is performed best when compliance systems are an integral component of the business (Biegelman & Bartow, 2012). Clarity of policies and procedures, formal communication between different hierarchy levels within a firm, and performance-based pay not only for top management, but every employee. These are conditions that can significantly reduce the likelihood of fraud (Schnatterly, 2010). Prevention should focus on controls that are designed to reduce the risk of fraud occurring in the firm. Some elements of prevention controls are: fraud and misconduct risk assessment, code of conduct and related standards, communication and training, process-specific fraud risk controls (KPMG, 2006a; Power, 2013). The board, together with management, is responsible for ensuring institutional support at the highest level for ethical and responsible business practices (KPMG, 2006a). Which also brings one of the major issues of fraud into the discussion namely management override. Management override is seen as the Achilles' heel of the fraud prevention practice (AICPA, 2005). Management override of controls, which can be placed under collusion, is seen as a central element of the financial crimes and

¹ The Association of Certified Fraud Examiners provides a template to create a fraud policy, which is available at their website:

https://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/Fraud_Prev_Checkup_DL.pdf

frauds that are most complex and costly. These parties may consist of individuals within, as well as across, organizations or multiple organizations of which the collusive behavior could be of international scale (ACFE, 2010). In the fight against fraud it is very important to embrace fraud prevention and institute it in all levels of the organization, especially the top management that is hard to control (Biegelman & Bartow, 2012). The detection of management override comes from anonymous tips most of the time (Dellaportas, 2013).

2.3.2 Internal controls

The prevention tool that is central to this research project is internal control. Over the past few years, there has been an increase in the number of fraud convictions (Dellaportas, 2013). Improvement of a business entity's internal control can be seen as one of the reasons frauds get caught. Internal control is a very broad term which is applicable to a wide area of operation (Kumar & Sharma, 2005). A definition of internal control is that it provides a system of controls for a business entity, financial and non-financial. It is established by the management and includes internal check, internal audit, and other controls (Kumar & Sharma, 2005; Power, 2012). Part of this internal control is that it should ensure smooth and economic functioning of a firm. This is done by a number of measures and methods, which are exercised by the firm's management. It is a way of assisting the management in performing several different functions (Shanmugam et al., 2014). There is a need for this because the quality, reliability, and transparency of financial statements cause the allocation of resources in the economy. Only when this is the case, there can be efficient allocation of resources in the economy (Rezaee, 2005). Peterson & Zikmund (2004) found that strong internal control systems strengthen enterprise governance, improves management performance and mitigates the risk of fraud, because all employees help in the detection process.

The COSO, Committee of Sponsoring Organizations of the Treadway Commission, is a joint initiative that is dedicated to giving leadership to executive management and governance entities. In their attempt to make the definition of internal control more understandable the COSO divided it into three categories: (1) efficacy and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations (COSO, 2011). Although the categories overlap, the main focus in this research project is on the third category, internal control on the compliance with applicable laws and regulations. The COSO has also created an internal control model that firms can use to assess their control systems. The model consists of five components, namely: control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013). Effective internal control can be defined by the COSO as follows: "when both the board of directors and management have reasonable assurances that they understand the extent to which the entity's operational objectives are being achieved, the published financial statements are being prepared reliably, and the applicable laws and regulations are being complied with" (Jokipii, 2010, p. 119).

There are lots of different definitions for proper internal controls, explained in their own terms every time. However, from these explanations there are five components that are present in all explanations. The first component is the control environment within a company. Weak control environments increase the possibility of fraud (Beasley, 1998, Bell & Carcello, 2000). It defines the spirit of culture that is at hand in an organization and the way it operates. The atmosphere in which employees can perform activities and controls, defines the overall culture of the firm (Jokipii, 2010). The second component is that of risk assessment. Risk assessment refers to the process a company follows so they can deal with certain risks that may influence a firm's performance. The process consists of the identification, analysis, and assessment of the risks (Jokipii, 2010; Norman et al., 2010; Vona, 2012). The third component refers to the control activities of the firm. The control activities consist of policies, procedures, and practices that provide management with important information. It is supposed to assure management that risk strategies are implemented and used effectively, and that objectives are achieved (Jokipii, 2010). The fourth component is the information and communication component. This component ensures that the information that is relevant for employees is communicated, so that these employees can effectively perform their duties and responsibilities (Patel et al., 2010; Shah, 2013). The fifth, and last, component is the monitoring component. Monitoring refers to the process that assesses the quality of controls. External independent supervisors perform periodical investigations on the internal controls done by management or others (Jokipii, 2010).

Weak internal controls are seen as a major factor attributable to fraud (Dellaportas, 2013) and increase the control risk (Hribar et al., 2014). Control risk is the risk of internal control not being able to prevent or detect a misstatement. Internal controls need to be an assurance of an entity's assets and records (Hribar et al., 2014). Proper appliance of internal control systems not only ensures assets and records, they also create a monitored work environment where efficiency and effectiveness are encouraged (Shanmugam et al., 2014). An effective internal control structure is one of the most important steps taken by organizations towards the prevention of fraud by its employees (Albrecht & Albrecht, 2004).

Other problems with internal control are the fact that employees do not follow the rules or management overrides control (Klamm et al., 2012; Norman et al., 2010; Schnatterly, 2010). Internal control is mainly focused on dealing with the opportunity aspect of the Fraud Triangle. Good control can have a great impact on the opportunity, scaring off frauds. Even when they do find an opportunity, proper control improves chances of being caught (Dorminey et al., 2012). The ethical culture part of prevention is a direct attack on the rationalization process of frauds. When pointing out to workers that fraud is unethical and wrong (Murphy & Dacin, 2011; Tsang, 2002), it becomes harder for frauds to rationalize their behavior. This way they will get second thoughts about committing fraud, because it's pointed out more that they it is the wrong thing to do (Dorminey et al., 2012). Sutherland (1983) added to this the fact that environments in which ethics are valued provide additional deterrence. Concealment of the act will become more difficult and punishment will be certain once the perpetrator is caught.

2.3.3 Ethical Culture

The other main part of prevention, next to internal controls, is ethical culture (Dorminey et al., 2012). The ethical culture of a firm can be defined as “the perception about the conditions that are in place in the organization to comply or not comply with what constitutes unethical and ethical behavior.” (Kaptein, 2011, p. 846). A more simple explanation of ethical culture was made by Schein (1996). The CEO of a company plays a crucial role in the creation of an ethical tone within an organization. A CEO should lead by example and create a culture of high ethics and integrity (KPMG Forensic, 2014). In his study Schein (1996) describes ethical culture as “shared norms, values, and assumptions.” (p.229) Verschoor (1998) found in his study that linked ethical culture and financial performance that organizations that commit to ethical behavior and their code of conduct have greater performance than rivals that do not. Arjoon (2005) found that “ethics is truly an essential ingredient for business success.” (p. 349). Based on these findings, it can be stated that it has become more important for firms to work on their ethical culture. The collection of rules, policies, and institutions responsible for how a firm is being controlled are referred to as the corporate governance of a firm (Donaldson, 2012). Internal controls are more practical tools to prevent fraud. Internal controls prevent fraudulent behavior while performing a job. Ethical culture aims at making all that are involved in an organization realize that fraudulent behavior is wrong. The focus is on the mind set of an employee. It tries to affect the rationalization component of the Fraud Triangle (Dorminey et al., 2012).

Arjoon (2005) found that failing to come up with adequate corporate governance for a firm can be a real threat to the future existence of the firm. Firms that have effective corporate governance based on ethical values obtain a competitive advantage in the marketplace. When the reputation of a firm towards ethics is positive, this has a positive effect on customer and employee loyalty (Arjoon, 2005). Empirical evidence has been found stating that an ethical culture has a positive effect on the financial performance (Berrone et al., 2007, Chun et al., 2013). It is not necessarily noted when it has been first implicated. But due to a better employees’ collective commitment to a firm benefits the workplace (Chun et al., 2013).

2.3.4 Forensic Accounting

Forensic accounting is the field in accounting that investigates frauds or is called upon when there is the suspicion of fraud (KPMG, 2016). Gray (2011) made a distinction between auditors and financial accountants. Auditors focus on the identification and prevention of errors made by organizations. The forensic accountant focuses on the identification of fraud (Gray, 2011). This chapter will provide a more practical insight to the problems of fraud and misconduct based on the experience and expertise of KPMG forensic accounting experts and literature. According to Richard Girgenti², it is inevitable that fraud or misconduct will occur at

² Richard Girgenti is the Principal Forensic Practice Leader of the Americas Region at KPMG Forensic.

any company. The only question is which form this fraud will take on (KPMG US, 2016). KPMG Forensic (2006) presented a study developing a strategy for prevention, detection, and the response to fraud. The study provides an overview of fraud risk management fundamentals, the new regulatory mandates that are at hand around the world, and the practices that have been found effective in the current environment by organizations (KPMG Forensic, 2006). In 2014, KPMG Forensic provided an updated version of the KPMG Forensic (2006). KPMG Forensic (2014) elaborates on the 2006 version by providing a road map to manage risks of fraud and misconduct, based on the design, implementation, and evaluation of practices that were found effective by leading organizations. As the title suggest, the key objectives are prevention, detection, and response. “Prevent instances of fraud and misconduct from occurring in the first place. Detect instances of fraud and misconduct when they do occur. Respond appropriately and take corrective action when integrity breakdowns arise.”(KPMG Forensic, 2014, p. 5).

Prevention focuses on the fraud and misconduct risk assessment. Fraud and misconduct risk assessments help the management of a firm understand the unique risks that apply to the organization, and identify weaknesses of control to mitigate these risks (KPMG Forensic, 2014). To create effective fraud and misconduct management, there should be a well-designed and properly executed ethics and compliance program to begin with (KPMG US, 2016). Eventually this leads to the development of a practical plan to target the right resources and controls so these risks are reduced (KPMG Forensic, 2014). Well executed fraud risk assessments are capable of identifying the most noticeable risks related to the integrity of an organization and its stakeholders. This can lead to creating a program to prevent fraud or misconduct from happening. An important aspect of that program is training (KPMG US, 2016). It is impossible to create an environment for the organization where fraud and misconduct cannot happen, without the loss of business. This kind of organization prohibits an effective work environment, according to Timothy Hedley³ (KPMG US, 2016). A critical maximization aspect of prevention and detection of wrongdoing are advanced technologies. These should be incorporated into the compliance program of the organization. Organizations need to be aware of what people with the wrong intentions can do to them with technology and create controls that prevent these attacks. The organization will be better prepared to avoid these situations, and respond to them if necessary (KPMG US, 2016).

The key to a good detection program is that it has great policies, procedures, and processes, as well as the right people helping out. For example forensic accountants, lawyers, cyber specialists, and an industry specialist that understands the nature of the situation that is at hand (KPMG US, 2016). A first step can be to create a hotline for whistleblowers to call whenever there is the suspicion of fraud, so the case is brought to the light of the right people who can investigate the situation. It is important that among other things, the hotline is confidential and anonymous (KPMG Forensic, 2006).

³

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When the integrity of a firm has been broken down, a team of people should be brought in to respond, perform an internal investigation (KPMG US, 2016). The ‘Fraud Prevention Scorecard’ of the AICPA (2008) helps organizations test whether their prevention tools are sufficient. To have an effective response to fraud, the following factors should be taken care of: “Who should perform the investigation; How should the investigation be performed; When should a voluntary disclosure to the government be made; How to determine the remedial action; How to identify remedy control deficiencies; How should disciplinary action be administered” (AICPA, 2008, p. 64).

2.4 Rules & Regulations

Chapter 2.4 will discuss the different rules and regulations that are at hand in different countries around the world. To begin with the USA and their Sarbanes-Oxley Act of 2002. Followed by the UK Corporate Governance Code that applies to the United Kingdom. The third code that will be discussed is the Australian Corporate Governance Principles and Recommendations. Finally, the Dutch Corporate Governance Code will be discussed.

2.4.1 United States of America

To protect the capital market from these fraudulent acts that keep occurring, rules and regulations needed to be drawn up. For the capital market to be working efficient, the quality, reliability, and transparency of the financial information that firms share with the markets has to be accurate (Jain et al., 2008). The rules and regulations constructed by governments worldwide that are at hand today, find their foundation in the major fraudulent scandals that happened in the US during 2001 and 2002 (Chhaohharia & Grinstein, 2007). As a result of Enron, WorldCom, Adelphia, Global Crossing, Qwest Communications, and Tyco raised the question for a reform of the corporate business practices, and improvements of accounting and government systems for publicly traded companies. An answer to this question came on July 30th 2002 in the form of the Sarbanes-Oxley Act of 2002 (SOX) (Hochberg et al., 2014).

SOX was a response to the financial scandals, financial restatements, and the damage done to investor confidence. These negative activities caused the market to become extremely volatile (Jain et al., 2008). It was supposed to strengthen corporate governance of firms that are publicly listed, and to restore the confidence of investors in US capital markets (Kang et al., 2010). SOX states a set of rules that are to ensure that the incentives of corporate insiders and investors are the same. By doing so SOX tries to reduce the likelihood of fraud or corporate misconduct (Chhaohharia & Grinstein, 2007). SOX is suggested to be one of the reasons that investor confidence is being restored (Li et al., 2008). The SOX has for example made it possible that fraudulent behavior can get more severe punishments (Chhaohharia & Grinstein, 2007). The study done by Jain et al. (2008) found that the implementation of the SOX has improved the financial information that is shared with the public, and investor confidence in financial reporting and capital markets is being restored. Hochberg et al. (2014) also found in their research that

SOX led to “improved disclosure, transparency, and corporate governance, thereby reducing misconduct and mismanagement by insiders, and that for shareholders overall, these benefits may outweigh the costs of compliance” (Hochberg et al., 2014, p. 575).

However, it has not only been good news since the SOX was implemented. For example the evidence found by Kang et al. (2010) stating that the SOX has had a negative effect on corporate investments made in the US. Compared to the UK, over the same period of time, the SOX had a negative effect on the corporate investments. Firms have become more careful with their corporate spending (Kang et al, 2010). Another negative aspect of the SOX is the fact that foreign firms might choose to not enter the US for business because of the unnecessary costs it brings upon firms (Duarte et al., 2014). There is also support for the argument that SOX events are related to the negative cumulative abnormal returns (Zhang, 2007). Whereas the research of Berger, Li & Wong (2006) shows that SOX has been costly for foreign firms. There has been found evidence that the negative feeling that investors had about the SOX Act, that it would negatively affect cross-listed foreign companies (Litvak, 2007).

2.4.2 United Kingdom

In the UK they have the UK Corporate Governance Code, which is formerly known as the Combined Code. The code is written by the Financial Reporting Council, the UK’s authority in the field of high quality corporate governance and reporting (FRC, 2016). The UK Corporate Governance Code consists of five main sections: (1) Leadership, (2) Effectiveness, (3) Accountability, (4) Remuneration, and (5) Relations with shareholders (FRC, 2016). In all of these sections it is explained which requirements should be met to comply with the Corporate Governance Code. If an organization fails to meet these requirements it should explain why. The UK Corporate Governance Code follows the ‘comply or explain’ principle. Where the organizations should either comply with the code or explain why they do not (Bruner, 2011).

The leadership section focuses on the following requirements. First, any company should be leaded by an effective board. This board should be collectively responsible for the long-term success of the company. Second, the division of responsibilities is very important. In no case there should be one individual that has too much power. Third, the chairman is responsible for the effectiveness of the board. A suggestion by the code is that directors should challenge the members of the board so they can help develop proposals and strategies (FRC, 2014).

Section 2, the effectiveness focuses on guidelines to try and help improve the effectiveness of the company. First, committees should have the right balance of skill, experience, independence, and knowledge. This way they are enabled to perform their duties and responsibilities effectively. Directors should spend enough time on their duties and responsibilities, and make sure to update their skills and knowledge. Also the sharing of information with the board is very important. The board is able to be more effective if the

information needed is received on time. Finally, a thorough evaluation of board and individual performance, combined with a regular re-election should improve effectiveness (FRC, 2014).

Accountability focuses on the sharing of firm information with the outside world. It should be the duty of the board to present a fair and understandable picture of the firm for its shareholders and investors. The board is also responsible for setting the level of risk and making sure that a sound risk management and internal control system is in place. A transparent and formal board should maintain the appropriate relationship with the company's auditors (FRC, 2014).

Remuneration focuses on the rewarding of executive directors. The remuneration should be focused on the long-term success. The rewarding process should be formal and transparent, so that no director can have any involvement in the decision of his or her own remuneration (FRC, 2014).

The relationship with the shareholders can be very important to a company. It should create a dialogue with the shareholders so it can be clear whether or not there is a mutual understanding of the objectives. To make sure this happens, the board is responsible for this task. One of these methods is general meetings organized by the board to communicate any news or answer any questions for the shareholders (FRC, 2014).

2.4.3 Australia

On the 27th of March 2014 the Australian ASX Corporate Governance Council provided their latest version of the Australian corporate governance code, the Corporate Governance Principles and Recommendations. The ASX is the Australian Securities Exchange, and the ASX Corporate Governance Council “brings together various business, shareholder, and industry groups, each offering valuable insights and expertise on governance issues from the perspective of their particular stakeholders” (ASX CGC, 2016). The Corporate Governance Principles and Recommendations follow the ‘if not, why not’ principle, which is similar to the ‘comply or explain’ principal used in the UK (ASX CGC, 2014). The Corporate Governance Principles and Recommendations follows eight principles (ASX CGC, 2014).

First, there should be solid foundations for management and oversight. The roles and responsibilities of board and management need to be disclosed. Also, the monitoring and evaluation methods that apply to the board and management should be disclosed (ASX CGC, 2014).

Second, the board should be structured to add value. The board should have an appropriate size, composition, and the right skills and commitment to make sure the carrying out of duties is done effectively (ASX CGC, 2014).

Third, a company should act ethically and responsibly. Whenever a company acts unethically or irresponsible, this could affect the effectiveness of a company (ASX CGC, 2014).

Integrity should be very important in corporate reporting. Formal and rigorous processes should independently verify the integrity of a company's corporate reporting, as well as safeguard it (ASX CGC, 2014).

The disclosure of information should be timely and balanced. This way investors can have the opportunity to concern all matters before making any decisions. Important is that all factors that can have a material effect on the decision of a person are included (ASX CGC, 2014).

The rights of security holders should be respected at all times. Providing the appropriate information for security holders and facilitate the possibility for them exercise their rights effectively (ASX CGC, 2014).

Recognition and managing of risk is also very important. Risk management frameworks should be effective and the effectiveness of these frameworks should be evaluated periodically. By doing so, companies are able to check whether or not their risk recognition and management is still effective (ASX CGC, 2014).

Remuneration of directors and executives should be fair and responsible. The remuneration should be high enough to keep and attract high quality directors. It should also act as an incentive for executives to make sure their interests are in line with creating value for the security holders (ASX CGC, 2014).

2.4.4 The Netherlands

As a result of the SOX attacking the problem of internal and external control within firms, other countries took on similar laws as well. In the Netherlands, the Dutch version of SOX was called the Tabaksblat Code. In 2003 an important reason for the Tabaksblat Code came to light: a major fraud at Ahold (Arping & Sautner, 2010). Eventually this led to the revision of Ahold's financial statements and caused a lot of problems during this period (Oranje & Wester, 2004a). The goal of the Tabaksblat Code is to increase the transparency and accountability of Dutch corporate governance. It also aims at improving the integrity and quality of the management board and the supervisory board of firms (Akkermans et al., 2007). The Tabaksblat Code applies to listed companies that have a registered office in the Netherlands (Akkermans et al., 2006). Because of the fact that regulations in the past were often noncompliant, the Tabaksblat Code was taken up into the Dutch laws.

Dutch companies were obliged to follow these regulations, because it was concluded that Dutch business was not capable of improving corporate governance on its own (Abma, 2005). The fact that the Tabaksblat Code is included in the Dutch laws, this has two direct consequences for the supervision of the Code. First of all, the external accountant has to check whether the firm has mentioned in the annual report that it is in compliance with the Code. If this is not the case, there needs to be a notice of this in the annual report, followed by an explanation as to why the firm did not or could not comply. This might be a reason for the external accountant not to sign

off on the annual report (Abma, 2005). The second consequence is that the AFM also has to check whether or not there is compliance with the Code in the annual report. This should have a preventive influence on the compliance with the Code (Abma, 2005). The Tabaksblat Code has, just as the SOX does, some negative sides as well. For example, the Code uses a so called “pas-toe-of-leg-uit” principle, similar to the UK and Australia, which means that comply (pas toe) or explain (leg uit) why there is or is no compliance with the Code. However, when a firm does not comply and explain, it is very easy to withhold information in the explanation (Akkermans et al., 2006). Another source of overrated compliance is that about 20 percent of the compliance is hard to verify for someone on the outside. Things could be claimed to work in a certain way, but this does not mean they actually do (Akkermans et al., 2006). A result of the Tabaksblat Code is that Dutch firms have significantly reduced their leverage, they rely more on their own funds (Arping & Sautner, 2010).

In 2009 the Netherlands introduced the ‘Nederlandse Corporate Governance Code’, from now on the Code, which was the successor of the Tabaksblat Code. This was the result of a revision of the Tabaksblat Code by the commission Frijns. He presented an up to date version of the Tabaksblat Code, which was finished in December 2008 and implemented January 1st of 2009. The Code applies to firms that are noted at stock exchanges within the European Union or similar markets outside the EU. However, if the total revenue is less than 500 million euros, the Code does not apply (Monitoring Commissie, 2016). The Code consists of principles and specific provisions that people working at applicable firms and the people that try to do business with these firms need to considerate. These principles can be seen as modern and broad overall views on good corporate governance. The Code still follows the ‘pas-toe-of-leg-uit’ principle, the “comply or explain” used in the UK and Australia. So whenever a firm is not compliant and does not explain why, it is in contrary to compliance with the Code (Monitoring Commissie, 2016). The code consists of five chapters: 1. Compliance and enforcement of the Code; 2. The Governance; 3. Supervisory Board; 4. The General Meeting of Shareholders; 5. The Audit of the financial reporting and the position of the internal audit function and the external auditor (Monitoring Commissie, 2016).

Focusing on the financial reporting part of the Code, it states the following. The internal auditor’s functioning is the responsibility of the Board. To ensure best practice, the code has three provisions. First, the firm’s external accountant and the Audit Committee are involved with creating a work plan for the internal auditor. They also take note of the findings of the internal auditor. Second, the internal auditor has access to the external accountant and the chairman of the Audit Committee. Third, in case there is no internal auditor, the Audit Committee is obliged to yearly evaluate the need for an internal auditor. The Supervisory Board comes to a conclusion based on this evaluation. Suggested by the Audit Committee, the Supervisory Board comes with recommendations for the Board and also makes note of these decisions in the report of the Supervisory Board (Monitoring Commissie, 2016). Some other principles can also be found in chapter five of the Code. Regarding financial reporting, the Board is responsible for the quality

and the integrality of the financial reports that are made public. The Supervisory Board has the responsibility to check whether or not the Board performs this task in the right way. Think of checking financial statement procedures, the level to which the external accountant is involved, as well as monitoring whether or not internal procedures are met and complied with (Monitoring Commissie, 2016).

Another part of the Code is how the external accountant is involved with the process. The external auditor is named during the General Meeting. The Audit Committee and the Board present their insights on this matter to the Supervisory Board. Eventually the Supervisory Board decides the role and naming of the external auditor, based on the Board's and the Audit Committee's insights. Finally, the relation and communication of the external accountant with bodies of the firm are determined. The external accountant has to be present during the meeting in which the financial statements are being set or approved. During this meeting, the external accountant has to report its findings that resulted from checking the financial statements to the Board and the Supervisory Board (Monitoring Commissie, 2016).

To make sure companies follow the instructions of the Nederlandse Corporate Governance Code the AFM, Authority Financial Markets in English, acts as a supervisor. The AFM is an independent administrative, which means that the AFM can perform government tasks that are not restricted to their particular ministry, which in this case is the Ministry of Finance. The role of supervisor of the AFM focuses on the financial market participants. Financial service providers, stock exchanges, mediators, and accountants are some of the participants the AFM has its focus on. The AFM can give out warnings, help organizations, fine organizations, and can report strange behavior with the Openbaar Ministerie (OM)⁴. Another important supervisor is the FIOD, the Financial Intelligence Investigative Service in English. The FIOD detects financial fraud and tax fraud. They sometimes work together with the AFM in cases of fraud. The FIOD also focuses on the organized crime that can be related to fraud, for example money laundering (FIOD, 2016).

To summarize, there has been a lot of research on the topics of fraud, financial statement fraud, the prevention of fraud, and rules and regulations that should apply to fraud. The Fraud Triangle is seen as the accepted method by nearly all researchers. The focus of most anti-fraud research has been on the extreme cases like Enron, and the major economies, e.g. the US. This study aims to relate the fraud theory on smaller economies, in this case that of the Netherlands. It mainly focuses on internal controls on and the prevention of fraud, and will also have a say about the part of the Dutch rules and regulations in this ongoing fight against fraud. In 2016 there has been an eight week period in which a proposition for the revision of the Nederlandse Corporate Governance Code was discussed. This period ended in April, and it is expected that the revised version will be available after the summer of 2016 (Monitoring Commissie, 2016).

⁴ Openbaar Ministerie (OM) is the Dutch prosecutor.

3. Methodology

To find out what happened in the Dutch fraud cases, these fraud cases need to be analyzed. The methodology that will be used in this research project will therefore be a multiple case study. Analyzing fifteen different fraudulent acts that occurred in the Netherlands will provide an answer to Q1, Q2, and Q3. Here it will be explained which method will be used to answer these questions. The findings will be represented using the CRIME framework by Rezaee (2005), which has been expanded to the CRIMES framework for this research specifically. This will give an extra dimension that may help understand the reasoning behind financial statement fraud in the Netherlands. With the help of the CRIMES framework, several tables and graphs can be created. These can create an easy tool to oversee some similarities and differences between the investigated fraud cases. The buildup of this chapter will be as follows. In 3.1 there will be an explanation of the method that will be used. Why this method is chosen, why other researchers chose it, and of course why it is relevant for this study. Part 3.2 will discuss the collection process that is used to find data suitable for the research.

3.1 Case Study

The research that will be executed is an explanatory multiple case study. The use of a case study is related to research that concentrates on one particular subject. This subject could represent a country, an event, a person, or anything subject to a fraud case (Thomas, 2015). In this case the subject of investigation is the failure of internal controls to prevent fraud. Moreover, case study as the method for this research is justified because case studies provide answers to ‘why’ and ‘how’ questions (Yin, 2013). Considering the fact that the research question starts with a ‘why’, a case study fits this research nicely. The case study consists of fifteen different case studies, making the methodology a multiple case study. In multiple case studies the result of one case alone is not as important, but the focus is on the comparison to the other cases (Thomas, 2015). According to the five categories of accounting case studies by Scapens (2004) the multiple case study at hand can be described as explanatory. There are (1) descriptive, (2) illustrative, (3) experimental, (4) exploratory, and (5) explanatory accounting case studies. Explanatory case studies seek to provide convincing explanations for observed accounting practices. The objective is to generate theory that provides good explanations for what happens in the cases. Does theory explain what happens or should it be expanded (Scapens, 2004).

Scapens (1990) pointed out the five categories of case studies in the light of the field of accounting. Descriptive case studies have the objective to describe the practice that the research is about, by providing a description of the systems, techniques, and procedures that are currently in use in the practice. An example of a descriptive case study is that of Whipp & Chiarelli (2004). In their study, Whipp & Chiarelli (2004) tried to “develop a rich picture of student SRL processes in a Web-based course” (p. 8). The focus of this kind of case study is on creating an image and not testing theory, therefore this method was not used.

The second case study method that is explained is that of an illustrative case study (Scapens, 1990). Illustrative case studies focus on illustrating new or innovative processes that were developed by certain companies. This provides an illustration of achievements in practice (Scapens, 1990). For example, the development of multimedia and what is involved with the innovation process (Silverstone & Haddon, 1996). The focus of this study is not on the evolution or development of a phenomenon over time that is why an illustrative case study is not applicable.

Next on the list of Scapens (1990) is the experimental case study. An experimental case study tries to create new methods that should be helpful to practitioners. Barkhuus & Dey (2003) performed this type of case study to generate a different set of privacy issues, comparing two types of services. They found that people preferred one type over the other in specific situations (Barkhuus & Dey, 2003). The method tries to find new insights and provide theory explaining why the results are what they are. That is not what this study is about and therefore this method did not fit the research.

The fourth category of case studies mentioned by Scapens (1990) is the exploratory case study. Exploring reasons why particular practices are at hand. It is mostly the first step in empirical testing with the objective to generalize the reasons behind certain practices (Scapens, 1990). Wang et al. (2006) for example use an exploratory case study to gain information about the strategy, process, and experience of a project their research is about. Considering the fact that this research is not about the gathering of information about something, an exploratory case study is not the right method for this study.

Finally, the last category is the explanatory case study by Scapens (1990), which was mentioned earlier in this chapter. Ramus et al. (2003) also used the multiple case study approach. The study was about testing three theories of developmental dyslexia. Much like in the study in this thesis, Ramus et al (2003) used real world examples to test the applicability of existing theory. The purpose of performing tests on the real world is to test whether or not the existing theory is right or should perhaps be revised. Another multiple case study is that of Van Echtelt et al. (2008). During their study, Van Echtelt et al. (2008) tried to validate and extend an existing framework. This type of case study fits the study that is performed here the best, as the existing theory on fraud is being tested based on a multiple case study.

The aim of this multiple case study is to provide a novel insight into the (in-) efficacy of current internal control methods and the consequences when they fail. This study shares similarities with the Nicholson & Kiel (2007) study in that it creates an opportunity to examine the findings under the theory on fraud. However, this study quantified the failing of internal controls and focused on the breadth of Dutch fraud cases. This study rather aims to create a practical picture of what happened when internal controls fail and investigate the depth of Dutch Fraud cases. Dijk & Yarime (2010) share the feeling of the applicability of explanatory case

studies while testing theories. In agreement with Dijk & Yarime (2010) this study also aims to use explanatory case studies to apply existing frameworks to new data.

3.2 Data Collection

The Dutch economy has had its fair share of fraud scandals already. On the bright side, this will make collecting data, selecting cases for the case studies, a little easier. The selection of the cases has been a process of selecting certain cases that meet the specifications that are at hand. The first, and fundamental, criterion relates to the Dutch nature of the fraud cases. The registered offices of the selected cases needed to be housed in the Netherlands. The Dutch law only applies to firms that have a registered office in the Netherlands (Akkermans et al., 2006). The second criterion, which was just as fundamental as the first, that needed to be met was that of a conviction by the Dutch Court. Without a conviction, there is no proof of fraud. As long as the judge has not deemed a suspect guilty, there is only suspicion. The need of proof was therefore the main focus during the case selection. The third criterion, which was more of a preferable criterion than it was actually necessary, was that of the amount of damages.

To make sure that the research would catch the interested reader's eye, the minimal amount of damage that was done by the fraud cases had to be 1 million euros. It needs to be noted that in the year 2002 the Netherlands switched their currency from the guilder to the euro. Even though there was a significant difference in value between the euro and the guilder, the necessary margin of damages remained one million. Fortunately, during the case selection, all the damages that were found came in euros. The main sources that were used to collect the needed data from were court decisions, and decisions made by other Dutch authorities in the field of economics (AFM, FIOD). Secondary sources of data were newspaper articles and other articles on the particular cases. An overview of the used data sources is presented in table 4.

Source	List of items
Court Decisions	Arrondissementsparket (OM), Functioneel Parket (OM), Hof te Amsterdam (OM), Openbaar Ministerie (OM), Rechtspraak.nl ⁵ , Ressortsparket (OM)
Newspapers	Algemeen Dagblad (AD), Algemeen Nederlands Persbureau (ANP), Financieel Dagblad (FD), NRC, Telegraaf, Volkskrant
Other datasources (websites, newsprogrammes)	Accountant.nl ⁶ , Elsevier ⁷ , NU.nl ⁸ , Nieuwsuur, NOS ⁹ , AVRO TROS Opgelicht ¹⁰ , Quotenet.nl ¹¹ , Z24 ¹²

3.3 Sample Description

A selection of cases where court decisions have proven fraudulent financial statements is used for this research. The sample consists of fifteen cases of fraud that have happened in the Netherlands during the period of the years 2000-2015. Some of these cases still have their effect on society and people that were victim to the fraudulent act today. Table 1 provides a list of names of the companies in the case studies. All of the companies that are represented in table 1 have total damages done of more than one million euros. So the total amount of damage done to investors, people losing their jobs etc. is over one million euros for each case. Some cases represent listed companies and other cases are rarely known. To create an image of fraudulent behavior in the Netherlands, every company is seen as equally important. No matter if the total damages are nearly one million or if they are a hundred million, the cases are of equal importance.

⁵ Rechtspraak.nl is the website where the Dutch court makes their jurisprudence available to the public.

⁶ Accountant.nl is a Dutch website that provides news and information that is relevant for the Dutch accounting practice.

⁷ Elsevier is a magazine that reports on business and politics.

⁸ NU.nl is a Dutch website that provides news to the people as soon as possible. Nu is the Dutch translation of now.

⁹ NOS provides the news on the Dutch public television channels, Nieuwsuur is a NOS programme.

¹⁰ A Dutch television programme that investigates scams, if the police investigation is stuck this programme brings the scam to the light of the public. Opgelicht is the Dutch word for scammed.

¹¹ Quotenet.nl is a website that keeps track of the rich and famous of the Netherlands and their financial situations, and other related business news. It is the website of the magazine quote, which publishes a list of the 500 wealthiest families/individuals in the Netherlands every year.

¹² Z24 is a website that provides financial news.

Table 2: List of companies that were used in case study research	
Listed companies	
1.	Imtech
2.	Ahold
3.	Delta Lloyd
4.	SBM Offshore
5.	Heineken
Investment industry	
6.	Easy Life
7.	Future Life
8.	Palm Invest
9.	Golden Sun Resorts/Royal Dubai
Entertainment industry	
10.	The Entertainment Group (TEG)
Real estate industry	
11.	Rochdale
12.	Klimop Case
13.	Janssen de Jong Infra (JJI)
Transport industry	
14.	Rynart Transport
Government	
15.	Ministry of VWS (Health, Welfare, Sports)

In the sample, there are 14 companies and 1 fraudulent act that occurred at a Dutch Ministry. The perpetrators in these cases have had sentences that differ from just a fine up to 7 years in jail. In most cases the perpetrators were male; in only one of the other cases the perpetrators were male and female. During the fraud examination of Rochdale it came to light that the female life partner of the prime suspect was also involved in the scheme. Perpetrators were found guilty of several fraudulent acts, like embezzlement, tax fraud, bribery of government officials and civil servants, and price arrangements. Not all cases were about listed companies. However, Imtech and Ahold were listed companies. They present great examples of how internal controls fail. Delta Lloyd, SBM Offshore, and Heineken also represent fraud at a listed companies. The fact that this is not mentioned in the same degree of damages as cases Imtech and Ahold is because the damages at Delta Lloyd and Heineken were far less severe. The fraud at Delta Lloyd did not have very severe effects on the company itself nor its perpetrators. Of the fifteen cases, four of them occurred at investment firms, Easy Life, Future Life, Palm Invest, and Golden Sun Resorts/Royal Dubai. It should be noted that case Golden Sun Resorts/Royal Dubai consists of two separate fraud cases. However, because in both cases the perpetrators performed the same role at the firm and in the fraudulent act, the court treated this

like one case. Most of the investment firm cases started with the intention to use other peoples' investments for their private spending (Easy Life, Future Life, & Golden Sun Resorts/Royal Dubai). The perpetrators of Palm Invest were overwhelmed by the enormous amount of money that came to their disposal. While they were aiming at investing it all, the enormous amount made them change their minds. One of the cases was about real estate fraud, in which top management of three firms were involved, the Klimop Case. Even though this fraud does not represent the largest amount of money involved in the fraud, it is certainly one of the most complicated and well thought cases in Dutch history. In almost every case the goal of the perpetrator(s) was self-enrichment. Earn large amounts of money without putting in the effort that should match such amounts. Some of the fraudulent acts were committed to create a better picture of the firm, Ahold and The Entertainment Group (TEG). This led to increased investments that should benefit the firm. The perpetrator in case TEG committed the fraudulent act to save the company from bankruptcy. However, the perpetrator was so kind to give himself a sufficient bonus amount of money as well. In two cases perpetrators were involved with bribing government officials or civil servants, SBM Offshore and Janssen de Jong Infra (JJI). By doing so, the firm would get a preferred treatment with the allocation of projects. The perpetrator at Rochdale let other people bribe him. So he would give certain clients a preferable treatment, and in return they paid him in either cash or for example real estate in Spain. More information about the cases can be found in the CRIMES table that will follow later on in this research project.

Because of the fact that this is a very specific research, focusing on fifteen cases in the Netherlands, the research has some limitations. The conclusions that are drawn from the research will provide an insight on financial statement fraud within the Netherlands. The conclusions that will be drawn can be related to other small economies. However, it should be noted that no two countries, or economies, are similar and therefore it will be wrong to literally relate the conclusions of this research to other small economies. Another limitation is that the conclusions are based on fifteen selected cases of fraud. Expanding the number of cases may have an effect on the conclusions that are drawn in this study. So, it is important to note that this is a specific research focusing on fifteen cases in the Netherlands. Therefore, it can relate to other small economies, but is no more than an indication of what could be reasons in other small economies. Also the results are based on the fifteen cases used, not on all cases that occurred ever in the Netherlands. That is why it is very important to point out these conclusions apply to the Netherlands, and mainly these fifteen cases. They can be an indication for similar economies, but are not a 100 percent applicable.

3.4 Assessing Case Studies

This study aims at providing a clear view on financial statement fraud in a small country and economy, specifically in this case the Netherlands. Financial statement fraud is related to material misrepresentations in the annual report of a company. Material misrepresentations occur when an investor's way of thinking about a company changes when a certain fact would have been enclosed (De Beelde, 2008). To make sure that this materiality is at hand, all of the cases

have suffered fraudulent acts that represent more than 1 million euros. If a firm loses >1 million euros due to fraudulent behavior, it reduces investor confidence in that firm, and they will probably decide not to invest (De Beelde, 2008).

When analyzing the case studies the focus is on answering the remaining sub-questions. To do so, the results will be implemented in the CRIME framework by Rezaee (2005). The theory on fraud has shown that it is important to expand on existing theories and methods, which is why this study does the same. An extra dimension, an S is added to the framework resulting in the CRIMES framework. CRIMES is an acronym, each character represents a word that explains different components of the framework. First an explanation of the CRIME framework by Rezaee (2005) will be given. Eventually the S of CRIMES will be introduced. To explain high profile alleged financial statement frauds, five interactive factors are determined by Rezaee (2005). These factors are cooks, recipes, incentives, monitoring, and end results, which when putting them together spell CRIME. First, these five factors explain different causes and effects of financial statement fraud. Second, it shows how important corporate governance can be in preventing financial statement fraud. Third, it represents new strategies on how to prevent financial statement fraud.

The 'C' in CRIME stands for cooks. The cooks are the individuals that are typically involved with financial statement fraud. From his research, Rezaee (2005) found that in more than 80 percent of the cases the CEO and/or CFO were involved.

The 'R' in CRIME stands for recipes. Recipes are simply the possibilities there are to commit financial statement fraud. Earnings management is pointed out to be the most common method of engaging financial statement fraud (Rezaee, 2005).

The 'I' in CRIME stands for incentives. This is an explanation of the motivations that are most common for companies to commit financial statement fraud. Economic incentives are obvious, but there could also be psychotic, egocentric, or ideological incentives (Rezaee, 2005).

The 'M' in CRIME stands for monitoring. The monitoring mechanism for publicly traded companies is as follows. There is a direct oversight function of the board of directors, external auditors, audit committee, and regulatory agencies. Also, there is an indirect overseeing function. This function relates to the people that are investors, analysts, and investment bankers. But the most important aspect of monitoring is that of responsible corporate governance (Rezaee, 2005).

The 'E' in CRIME stands for end results. The end results of financial statement fraud, in other words the consequences can be very severe. Some examples are bankruptcy, delisting from the stock exchange, and a decline in stock value. In his research Rezaee (2005) analyzed 9 cases, which totaled over 500 billion US dollars of damages. As can probably be imagined, the Dutch cases come nowhere near this amount.

The 'S' that is added to the CRIME framework to create the CRIMES framework stands for sentences. These are the sentences the perpetrators got for their fraudulent behavior. This could be a sentence in the form of a fine, community service or jail time that the perpetrator had to pay, perform or spend. However Dorminey et al. (2012) mentioned that jail sentences are used to deter fraudulent behavior; it can therefore also be seen as a prevention method. When the sentences are high enough, this may prevent perpetrators from committing a fraudulent act, and can therefore be seen as a prevention measure. The 'S' also represents the victims of the fraudulent act. The firm that got money stolen or their reputation damaged, investors that lost their money or for example people losing their jobs over malpractice. The CRIMES table alongside with several charts and graphs that represent some statistics based on the fifteen fraud cases represent an indication of financial statement fraud in a small country.

Based on the CRIMES table, other tables and graphs will be implemented to help answer the sub-questions of this research. Table 6 will create an oversight of the amount of damages done by the fraud cases. The damages will be divided in 0-5 million, 5-10 million, and >10 million euros. Table 7 will give an oversight of the employment levels of the fraudsters. The employment levels considered running the company will be CEO/CFO/Director; all other employment levels are considered not to be involved with running a company. Graph 1 will show the incentives of fraudsters to commit the fraud. Graph 1 will therefore create a clear picture of what incentives are most important and should be focused on by future researchers. Graph 2 presents an overview of the frauds per industry. This will show a clear image of the most vulnerable industries to fraud, and where it is important to make sure internal controls are as effective as possible. Finally, graph 3 shows the methods used to commit fraud. By doing so, graph 3 can create a distinction between the several methods and show which methods are most common. This could be helpful in the creation of control measures to prevent these frauds from occurring.

4. Results

The goal of the data analysis has been to test the questions. To answer the research question, an answer needs to be found for all the sub-questions. This chapter represents the results that follow from the analysis of the case studies. First, an analysis of the Dutch fraud cases will show what happened, by whom, and what the results were. Using the CRIMES table an answer will be provided for all the sub-questions, as well as providing a short summary of the fraudulent events that occurred in the fifteen case studies. Also there will be a representation of the distribution of several different aspects of fraudulent behavior in the cases. For example, the distribution of perpetrators between CEO/CFO's, top management, and lower management or employees. The CRIMES table, followed by several charts will create a clear image of where internal control has failed and should focus on. In part 4.1 this chapter will show the data analysis part. A summary of findings will be presented with the CRIMES table. Part 4.2 will discuss the results of the questions Q1-Q3 that needed to be answered to help answer the research question. Eventually part 4.3 will present other findings based on the dataset.

4.1 Data Analysis

For the anti-fraud community it is interesting to see how and why fraudulent activities take place in economies. Providing a data analysis of the fifteen fraud cases creates an insight in the fraudulent acts that occurred, and how they have taken place. How it was possible for the perpetrators to commit the act whilst internal control should prevent this behavior. The explanations will be of little detail and focus mainly on the aspects that are helpful to the project. Describing the firm, a short summary of the available data should provide what happened at firms and why they are considered to be applicable to the research. A description of these cases, all the data that was used and their references can be found in the appendix. The dataset exists of fifteen cases of fraud that either occurred within the Netherlands, or had their registered offices in the Netherlands. This allows for them to be tried by the Dutch court, and fulfils the criteria of proof of fraud. Table 2 has already shown the list of found fraud cases. A summarizing image will be shown using the CRIMES table. The important issues of the cases will be represented using this table. Resulting from this table is the opportunity to create pie charts based on the data. By doing so, an image can be given to the several outcomes that the CRIMES table presents.

Table 5, the CRIMES table shows an overview of the cooks, recipes, incentives, monitoring, end-results, and sentences of the fifteen cases discussed above.

Table 5: CRIMES table

Company Name	Cooks	Recipes	Incentives	Monitoring	End Results	Sentences (& victims)
Imtech	CEO, CFO, and lower management.	Overstating revenues.	Make it look like the manager responsible was doing great work. Revenues were overstated and nobody questioned why or how.	Responsibility was given to managers, lack of monitoring by German CEO who was supposed to monitor and company CEO who did not monitor as well. An example is the fact that only the person who sat in the room had a key to this room. Impossible for others to come in and monitor actions without permission.	Imtech went bankrupt, investors suing former top management for their losses. 2200 out of 4500 Dutch Imtech jobs were lost. 1300 of them when CEO quit his job after fraud came to light. Investors lost 1.1 billion euros.	CEO received two fines with a total amount of 500,000 euros. The CFO also received two fines with a total amount of 1.35 million euros. CEO lost his job, 80% of the managers lost their job, and more people lost their job after acquisitions because bankrupt Imtech was split up.
Ahold	CEO, CFO, member of the BoD.	Secret side letters used to falsely overstate revenues	Mislead investors with by creating better image of revenue than is reality.	Board members that kept secrets. Misleading controllers by letting them think the side letter they saw was the only one, and therefore they did not question the board members' actions. Lack of internal control on financial and accounting information.	Ahold became one of the world's largest fraud cases. Needed to be saved by banks. Responsible people were convicted. Revision of annual reports.	Shareholders and investors have put money in based on the false information provided due to the actions of the board members. Stock went down and lots of money was lost. Fines up to a 100,000 euros and jail time up to 6 months with 2 years' probation for the CEO, CFO, and member of BoD.

Company Name	Cooks	Recipes	Incentives	Monitoring	End Results	Sentences (& victims)
Delta Lloyd	Technical manager and 5 other perpetrators outside the company.	False invoices.	Self-enrichment, buying contracts and projects.	Perpetrator was responsible for entire operation.	Total amount of 4.5 million euros were stolen from Delta Lloyd. Perpetrator fired on the spot when fraud was found.	Jeroen J., prime suspect, had to pay 3.3 million back to Delta Lloyd and was sentenced to a 5 year jail sentence. 5 other perpetrators received sentences differing from 4 months with community service to 20 months of which 8 conditionally. 9 contractors settled with the OM. Most of the money was paid back to Delta Lloyd, by order of the court.
SBM Offshore	1 BoD member, others were scattered around lower positions.	Bribe government officials.	Get contracts and projects for the firm.	Internal control failed to see it on time, but noticed it eventually. It was brought to light also by a whistleblower that wanted to get some money out of it.	A whistleblower called SBM Offshore out . As a result SBM Offshore put everything in motion to find out everything about the fraud. This in turn resulted in a completely new Board of Directors.	SBM Offshore had settled with the OM for 240 million dollars, 40 million was a fine and 200 million was a confiscation.

Company Name	Cooks	Recipes	Incentives	Monitoring	End Results	Sentences (& victims)
Heineken	Three temporary workers.	False invoices.	The money was put in different private owned companies.	Internal control noticed it immediately, however money was gone already.	Heineken got back almost all of the stolen funds from its perpetrators.	The perpetrators were sentenced to pay back the stolen funds, and a 2 year jail sentence of which 8 months conditionally. One of them, not working for Heineken had to pay 2.3 million euros and was sentenced to 4.5 years in jail. 168.000 out of the 2.6 million was unaccounted for, could not be proven these people had anything to do with it.
Easy Life	General Manager, Manager & director. Perpetrators were the owners of the company.	False investment information.	No intention of investing, only self-enrichment.	Lack of internal control on actions of perpetrators. Leaving the opportunity for them to privately spend investor money, instead of investing it as promised.	Only 20 percent of investments were actually invested. Perpetrators spent the other 35 million on themselves.	Investors were told they probably would not get any of their money back. 500 investors that paid a minimum of 50,000 euros. GM: 4.5 years in jail, M: 3.5 years in jail, Director: 16 months in jail.

Company Name	Cooks	Recipes	Incentives	Monitoring	End Results	Sentences (& victims)
Future Life	Two Directors. Perpetrators were the owners of the company.	False investment information.	Money was used for investments of private companies.	No internal control whatsoever on perpetrators. Only the two top employees at the firm were aware of the fraud. Eventually lower employees found that their bosses were not investing the money as they promised and blew the whistle.	Due to bad investments all the money invested is gone. The money was invested in private companies that would seem unable to survive and went bankrupt.	About 60 investors lost about 8.8 million euros in total. Director V. got 4 years jail time, W. got 3 years in jail.
Palm Invest	2 CEO's. Perpetrators were the Owners of the company.	False investment information.	Overwhelmed by their success, started to invest in themselves. Initially this was not the case.	No control at all, 2 bosses that were both in on it. Leaving nobody to answer too, they could do whatever they want with the investors' money.	Only 4 of the 30 million was invested, 20 million was spent on luxurious lifestyle.	400 investors lost 30 million euros. Perpetrators agreed to pay back investors by selling valuables and working for it. Both got a 4 year and 9 months jail sentence.

Company Name	Cooks	Recipes	Incentives	Monitoring	End Results	Sentences (& victims)
Golden Sun Resorts/Royal Dubai	Top management consisting of 3 perpetrators. Perpetrators were all owners of the company.	False investment information.	Never planning to invest, almost all the money went straight to their own pockets.	No monitoring or internal control at all. The people involved with the companies were criminals, and all of them had previous convictions for other crimes they committed. They never had any intention of actually putting in some work. The companies were fake and therefore no monitoring was needed.	Investors lost all of their money put into these funds.	About 650 investors lost a total of between 60-70 million euros. Two of the three perpetrators were sentenced to 1.5 years in jail and paying back the investors. The other one was sentenced to 5 years in jail.
The Entertainment Group (TEG)	Director and CFO (same person).	Bankruptcy fraud and false invoices.	Trying to save the company from going bankrupt because of terrible books were done in the past and self-enrichment.	Hired to save the company, internal control did not question his methods. They trusted the CFO with doing the right thing needed to try and save the company from bankruptcy. Came to light when bankruptcy was already a fact. Curator noticed missing funds.	Company went bankrupt and investors lost all their money. Perpetrator stole 300,000 euros himself.	Some investors lost everything they owned. E.g. the Dutch artist Marco Borsato, who lost approximately 27 million euros. Creditors tried to save as much as possible. Perpetrator got 15 months in jail of which 5 conditionally with 3 years' probation.

Company Name	Cooks	Recipes	Incentives	Monitoring	End Results	Sentences (& victims)
Rochdale	CEO and his wife, business partners of CEO.	False invoices, price arrangements, unruly declarations of money.	Self-enrichment. Shady business partners paying to get contracts.	The corporate governance at the firm left the CEO with too much freedom. CEO did not have to discuss investments up to 50 million euros. Not having to discuss these kinds of expenditures left the CEO with a lot of room to fraud.	Rochdale supposedly lost 6 million euros to their former CEO, which they sued him for.	People that were in business with CEO and his wife were sued and had settlements. Renters saw their rent rise, CEO got 2.5 years in jail, his partner sentenced to 240 hours of community service. Business partners also got 240 community service and respectively 1 and 2 months of jail time.
Klimop Case	12 perpetrators at 3 different companies. Mainly board members and high functions.	Price arrangements, false invoices.	Self-enrichment. Deliberately making up shadow books so the leaders of the projects could earn millions for themselves.	They held separate books of which only the people involved knew about. Preventing any suspicion. Came to light because the extreme prices that were paid for real estate raised suspicion.	Immense damages done to the companies moneywise. Serious damage done to the trust of people in the real estate market.	Bouwfonds (Nowadays known as Rabo Vastgoed) and Philips Pensioenfond, lost approximately 200-250 million euros, of which 141 million was returned. All perpetrators were sentenced, varying from community service to 7 years in jail.
Janssen de Jong Infra (JJI)	CEO & Regional Manager.	Bribery and forbidden price arrangements.	Earn the company important contracts and projects that would generate a lot of revenue.	A loophole was found in the internal control of the firm, which was supposedly airtight. Allowing the perpetrators to find funds for their bribes.	Company no longer allowed to perform duties in Heerlen, as well as reputation damage.	Reputation damage was done to the company, and its parent company Janssen de Jong. JJI lost contracts as a result of fraud. CEO was sentenced to 12 months in jail, the Regional Manager to 14 months in jail.

Company Name	Cooks	Recipes	Incentives	Monitoring	End Results	Sentences (& victims)
Rynart Transport	CEO & CFO.	Overstating revenues.	Increase the growth of the company by attracting new investors.	Nobody questioned the actions of the perpetrators. Not even after a party for the personnel which must have cost a huge amount of money. This allowed them to overstate revenues by just simply making them up.	Company went bankrupt.	Lenders lost a total of approximately 128 million, with Rabobank losing 88 million euros. 2400 people lost their jobs in the bankruptcy. CEO got a 4 year jail sentence, CFO 37 months.
Ministry of VWS	Civil servant, responsible for the loans given by VWS.	Unruly declarations, forgery.	Self-enrichment. The perpetrators deliberately stole the money for their own personal gain.	No red flags went up for his behavior because perpetrator was responsible for the loans himself. However, when the alarm was raised that money needed to be paid, internal control did what was necessary. The fact that the perpetrators were smart enough to keep the amounts of the loans under the level of suspicion created the opportunity to keep stealing.	The Ministry had to vouch for the actions of the perpetrator, which led to payments of 22 million euros.	The tax payer suffered from their actions. 22 million of their money was put into the pocket of private persons. The civil servant got a 1 year jail sentence, his accomplices, an accountant got 3.5 years and the accountants' treasurer got 2 years.

4.2 Results

Based on the data that can be found in the fifteen cases that were discussed, as well as the CRIMES table some conclusions about these cases can be drawn. These conclusions will help provide an answer to the third and fourth sub questions and will help to eventually answer the research question. With the use of several graphs an oversight can be provided of some statistics based on these fifteen cases. Some background information will be provided with the graphs. An important note is that the statistics could overlap. Eventually there will be a table combining all factors that related to fraudulent behavior. This table will show a clear overview of what happened in which case and gives an insight in the overlaps of statistics.

Chapter 2 presented three questions that would be answered. The first question, Q1, aims at finding out if the amount of money involved with fraud increases whenever a CEO/CFO/Director is involved. Table 6 shows that of the investigated cases, there were nine cases in which the damages related to these perpetrators done exceeded 10 million euros.

Amount of damages (€)	Cases	Number	Percentage
0-5 million	Heineken, Janssen de Jong Infra (JJI), Delta Lloyd	3	20%
5-10 million	Rochdale, Future Life, The Entertainment Group (TEG)	3	20%
>10 million	Imtech, Ahold, Easy Life, Palm Invest, Golden Sun Resorts/Royal Dubai, SBM Offshore, Rynart Transport, Klimop Case, Ministry of VWS	9	60%
Total		15	100%

Table 6: The damages done by the fraudulent acts in euros.

Of these nine cases, eight of them involved any kind of employee related with running the company. This means that the hypothesis fails for a 10 million euros level. If the considerable amount mentioned in the hypothesis would have been for example 25 million euros, the hypothesis would have held. Then the one case that exceeded 10 million euros in damages would have been dropped and the hypothesis would be a 100 percent accurate with the dataset. One other thing that might be said is the fact that in the TEG case people lost considerable amounts of money due to a bankruptcy. However, this bankruptcy was inevitable even before the fraud was committed. If the entire amount of losses of the bankruptcy were taken into account this would

result in ten cases >10 million euros and 9 out of 10 cases involving a person running the company.

The second question, Q2, tried to find out whether or not financial statement fraud in the Netherlands is a crime committed out of poverty. Trying to prove that the people involved with the fraud did not need the money because of financial distress, but took it out of greed. Table 7 shows the answer to this question.

Perpetrator employment level	Case	Number
CEO	Imtech, Ahold, Rochdale, Easy Life, Future Life, Palm Invest, Golden Sun Resorts/Royal Dubai, Janssen de Jong Infra (JJI), Rynart Transport, Klimop Case	12
CFO	Imtech, Ahold, Rynart Transport, The Entertainment Group (TEG), Klimop Case	5
Director	Ahold, Easy Life, Golden Sun Resorts/Royal Dubai, SBM Offshore, The Entertainment Group (TEG), Klimop Case	6
Subtotal	23	23
Manager	Imtech, Easy Life, SBM Offshore, Janssen de Jong Infra (JJI)	4
Senior staff	SBM Offshore	1
Employee	Imtech, SBM Offshore, Heineken	3
Outside company	Rochdale, Klimop Case	2
Others	Rochdale, Heineken, Klimop Case	3
Total	36	36

Table 7: Perpetrator employment level

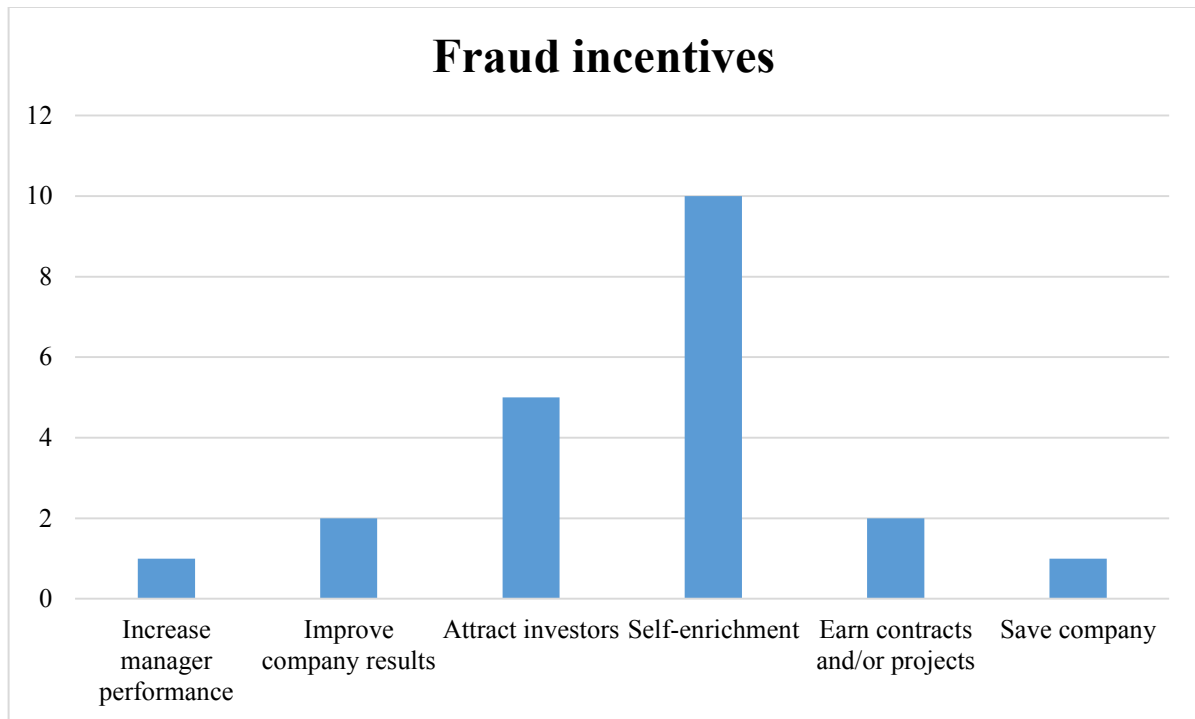
The employment levels that relate to are shown by the top box, which consists of the CEO, CFO, and Director level of employment. Important to note is the fact that a CEO is either the owner or chief executive officer of a firm. The other employment levels, manager, senior staff, Employee, outside company, and others were thought to not be related to running a company. The category others represents employment levels that would otherwise represent the value of 1 and were considered not to have any impact on how the company runs, e.g. temporary workers. Senior staff was defined, because it felt like an important employment level to mention, and the fact that it is not seen as influencing company practices. As can be found in the CRIMES table (table 5), in twelve of the fifteen cases employees that are responsible for running the company. Table 7 shows that in the fifteen cases, there were 23 people involved that can be considered rich based on their level of employment. Only thirteen perpetrators were of lower employment levels that cannot have any direct impact on how to run the company. These people have considerably lower wages than the top employee's, yet less of them are involved with the frauds. This proves the second hypothesis stating that fraud is a rich man's crime.

The third question, Q3, wanted to know if there is a relation between the effectiveness of internal controls and the level of employment. This can again be related to table 7, because the employment level of a person is related to the ability to override internal controls. Combining this with the CRIMES table, it shows that in only the Heineken case the perpetrators were unable to override internal controls. Contributing to this is the fact that the fraud was noticed within a month, showing that internal controls alerted the right persons immediately. Because the process of investigation took some time they were able to steal money from the company, but not because of ineffective internal controls. It can be said that when the level of employment increases the ability to override controls becomes increases as well. This means that internal controls become less sufficient when employment level increases, which points out a negative relation between internal controls effectiveness and level of employment. Eventually they were able to catch the perpetrators, but because this is considered detection and not prevention, internal controls failed. This might be an interesting topic for future research, finding a way to increase internal controls performance with levels of employment that are in a position to override them.

4.3 Other Findings

The CRIMES table offers the opportunity to show several statistics that are related to the fifteen fraud cases. However, these statistics are hard to understand when they are written and not shown in tables or graphs. For example, table 7 provides an image of the employment level of perpetrators. That is why, to clarify the CRIMES table, some insight will be given into the statistics. To be able to prove anything, statistics are needed. That is why the other findings of this research project represent some statistical conclusions drawn based on the CRIMES table.

When trying to prevent something from happening, it is important to know what the reasons, in the case of fraud called incentives, of the occurrence are. That is why the incentives to commit fraud in the fifteen cases are presented by graph 1.



Graph 1: Fraud incentives of the fifteen selected Dutch fraud cases.

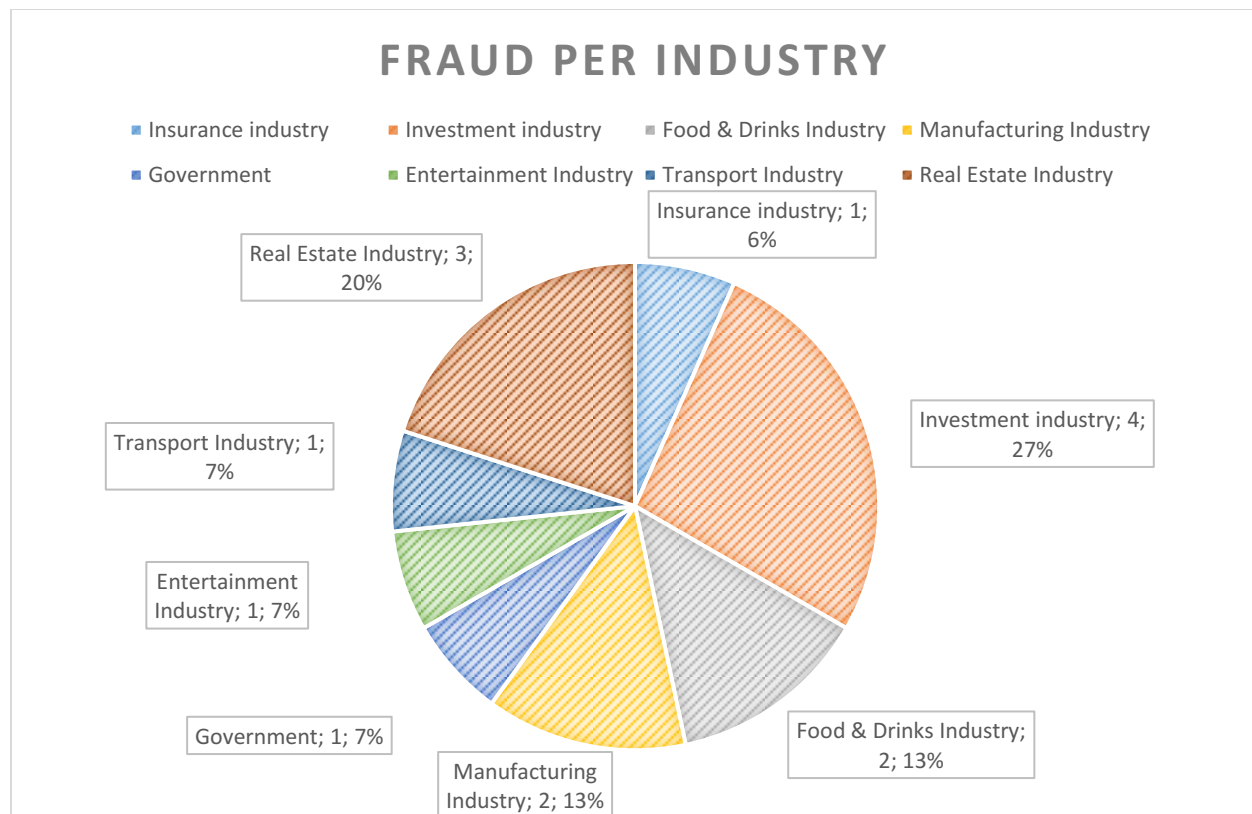
Incentives may of course overlap. For example the TEG case, where the fraudster committed fraud to try and save the company, as well as transferring money into his personal account for personal gain. The most frequent incentive is that of self-enrichment. As shown with testing hypothesis **Q2**, financial statement fraud is not a poor man's crime. Rich people, who do not suffer financial pressures, are mostly involved with fraud. One explanation may be that the level of employment relates to feelings of power. Which result into fraudulent behavior, because the perpetrators think they have the power to do whatever they want. Others need to listen to them and not the other way around, problems with obeying the rules arise.

Studies have shown that pressures from above can be an important incentive for perpetrators. For example, Feng et al. (2011) found that CFOs tend to act as a result of CEO pressures or for their personal gain. CEOs have the power to influence the compensation and position of a CFO (Indjejikian & Matejka, 2009; Mian, 2001). To save their job or secure income under CEO pressure is more often an incentive for CFOs to commit fraud than personal gain is (Feng et al., 2011; Dellaportas, 2013). When relating this statement to the selected fraud cases, this seems a likely conclusion. Of the five cases where the CFO was involved, four times the CEO was involved with the fraud as well. A remark on the works of Feng et al. (2011), Indjejikian & Matjeka (2009), and Mian (2001) is that even under pressure from a CEO, CFOs still commit financial statement fraud out of personal gain. Whenever they do not comply, the possibility exists that they will become worse off because of CEO actions. When CFOs do comply, they are likely to gain from it personally as well. This is another example of overlapping

incentives to commit fraud. When assessing the Dellaportas (2013) paper, it is notable that the first pressure, described as the motivation to commit fraud, with a financial motive is greed. Another financial reason to commit fraud is described as the continuation or viability of the business (Dellaportas, 2013).

When comparing this to the findings from graph 1, it can be found that four out of the six incentives are related to improving company performance. Fraud incentives can be divided into four categories as represented in table 2. Financial pressures, vices, work-related pressures, and other pressures (Albrecht et al., 2012; Dellaportas, 2013). Financial and work-related pressures seem to be the incentives that occur most in the Dutch fraud cases. Fraudsters in the analyzed cases want to increase their personal gain or the position of the business they are involved with. The reason fraudsters want to save the businesses they are in is probably related to the fact that they may lose their jobs. It can however be said that this is a fraudulent act committed out of greed as well. Namely, because if a firm loses investors and the perpetrator loses his or her job, he or she will be worse off. Or maybe the earnings will decrease because there is less money to spend on salary. So it may be concluded that Dutch fraudsters are involved with financial statement fraud because of greed, to ensure personal gain.

Another useful insight into the Dutch fraud problem may be the frauds related to the industry. When a company is within a certain industry, based on the results from the case study it might find itself in an industry where there is a high fraud risk. When this is the case they might be able to focus on improving internal control. The pie chart in graph 2 shows the results based on the fifteen case studies.



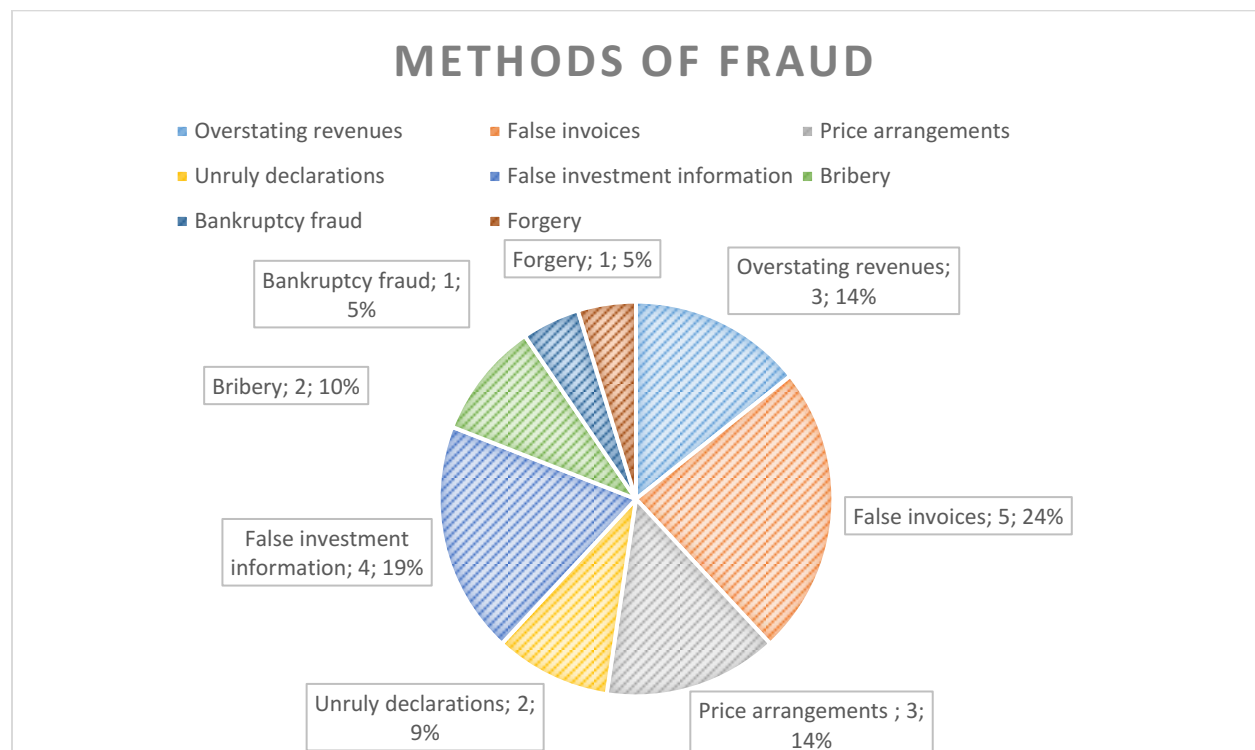
Graph 2: Fraud per industry based on fifteen Dutch case studies.

The pie chart shows that most frauds occur within the investment industry. The listed companies were put in their respective categories for this chart. For example, this means that Ahold and Heineken represent the Food & Drinks industry. SBM Offshore and Imtech represent the Manufacturing industry and Delta Lloyd represents the Insurance industry. The transport and the entertainment industry represent the same value, as well as the government. When trying to work out why this is the case, a couple of reasons come to mind. First, there is the obvious one that investors give their money away directly to have somebody else invest it. Investors put trust in these persons, without being a 100 percent sure they will do as they say. In the studied cases the investment companies promised returns that were actually too nice to be true. This might be an indication that thinking twice about investing money in these kinds of funds might not be that good of an idea. However, as represented above, greed can make people lose their sense of reality. Second, there is the rule in the Netherlands that investors are responsible for doing their own research into investment companies when the minimal investment is 50,000+ euros. This is being used by the investment companies so that the AFM does not breathe down their necks.

People become responsible for their own actions and seem to lack knowledge or skills to be able to see when things are too nice to be true. When some of these firms have been praised on national TV by a business program, investors rely on this too much apparently. If they say it is good, it must be. But as proven, this is result to base an investment decision on. Second on the

list is the Real Estate Industry. In this industry, there is being made use of a lot of subcontractors. Important for the real estate industry is the obtaining of projects. That is why the real estate industry can be considered a risky industry. There are lots of possible bribes or price arrangements that could occur. Low costs might be more important than high quality. To be the contractor that gets the contract, there are a lot of fraudulent acts possible to make sure a contractor gets the contract. Think of for example price arrangements or bribes. These industries seemed to be bearing the greatest fraud risks.

The last graph that will be represented shows some insight to the recipes of the cooks, better known as the methods of fraud used by the perpetrators. Graph 3 provides an insight to the methods of fraud using a pie chart.



Graph 3: Methods of fraud used in the fifteen Dutch case studies.

The most common method for committing fraud is said to be revenue recognition (Rezaee, 2005). In the fifteen cases that were analyzed, based on the convictions false investment information and false invoices are the most common methods. This can be related to the fraud per industry as displayed in graph 2. False investment information can be related to the high risk investment industry. This means that the money of investors should have been used to invest in real estate while it was being used to buy expensive cars and dinners for the fraudsters instead. In one of the cases the perpetrators promised their investors an interest rate of 9%, and that at least 70% of their investment would be directly invested. When the fraud came to light it became clear

that only about 10% of the investments made were actually invested. The rest of the money fell victim to the greed of the perpetrators.

A lack of supervision on their actions allows them to commit such a fraudulent act. False invoices relate to the real estate industry. An easy way to steal money from a company is by sending an invoice for services that have never been and never will be provided. If the person that has to pay the bills is in on the scam, he or she will make sure the invoice is paid. It will be hard to find out which of all of the invoices was false and can be related to fraud. It is very expensive to have someone check for example 10,000 invoices. That is why companies do not control all their invoices, leaving room for an opportunity to commit fraud. Price arrangements can also relate to the real estate industry. Illegal arrangements on what prices will be can increase revenue without anybody suspecting a thing. If all possible parties set their prices that high, it is hard to prove something is not right. When a consumer decides to do it for this too high price, the profit is shared amongst the businesses that are involved in the price arrangement. Overstating revenues is another method that is used within the Netherlands. This is a typical act for a company in distress or trying to keep or improve their position in the industry. When assessing literature on the false revenue reports, this seems to be one of the major financial statement fraud problems (Dechow et al., 1996; Erickson et al., 2006; Greenlee et al., 2007; Tugus, 2012). The case studies show that with overstating revenues, investors can be attracted, and more money becomes available for the company. Unruly declarations are kind of similar to false invoices, however these work the other way around.

Declaring money for a service or good that has never been delivered is also considered fraud. Bribery relates to paying off people to make sure that a certain contract or project will be given to the company. Government officials or civil servants that have the responsibility to allocate these kind of projects and contracts are bought. Giving them cars, expensive trips, concert tickets, whatever comes to mind. They get these for free, so the firm gets the project or contract and can start making some serious money again, a very illegal activity (DFT, 2009). Bankruptcy fraud in this case relates to the taxes a firm needs to pay based on their revenue. There are parts of revenue that do not have the burden of tax. By falsely stating that some revenue is free of tax, less tax gets paid than actually should have. This allows a firm to falsely decrease costs and increase profits. Finally, forgery is mentioned as a method used for committing financial statement fraud. In this case forgery relates to the fact that the perpetrator made false loan applications for handicapped people. The perpetrator was of course not handicapped at all and so had no right to claim such a government loan. He got them anyway by forging the applications, which resulted in a major amount of stolen money that could not be traced back afterwards (NRC, 2008; OM, 2006).

The graph shows that there is a lot of tampering with financial statements when it comes to the revenue of a company. Also, most actions are related to getting paid for a service that was never provided or a good that was never delivered. The greedy nature of financial statement fraud in the Netherlands is backed up by these results. Firm performance related frauds seem to always,

in the Netherlands, focus on the revenue of that company. Frauds that do not relate to firm performance are performed because of the greed of the perpetrator, who wants personal gain but is not willing to put in the actual effort.

Another interesting fact that came out of the case studies is that of co-offending. The Fraud Triangle, and all of its elaborations and expansions, merely focuses on a single perpetrator: the person that has a non-sharable problem and acts on his own. The case studies prove that this is not the case in the Netherlands. This result is opposite to prior research that suggested that fraudulent acts are a solo act (Ernst & Young, 2003; Free & Murphy, 2015). KPMG (2012) first noticed the growth of co-offending in fraudulent acts. Co-offending makes it relatively easy to create an opportunity for fraudulent behavior. As well as making it easy for the perpetrators to rationalize their behavior. If others, people who you trust and feel loyal to, are able to rationalize the fraudulent act, it will become easier for you too (Free & Murphy, 2015).

5. Discussion & Conclusion

In this chapter the remaining sub-questions will be discussed and an answer for both of them will be found. When an answer has been found to these questions, there will be a short discussion of all the results. Finally there will be a conclusion with limitations and recommendations for future research.

5.1 Discussion

Level of internal control has proven to be a tough measurement. Every company has its own unique internal control system. An attempt at answering the first sub-question will be done based on the five components of internal control (Beasley, 1998; Bell & Carcello, 2000; Jokipii, 2010; Norman et al., 2010; Patel et al., 2010; Shah, 2013; Vona, 2012), mentioned in chapter 2.4. The first component is that of the company control environment, relating to the culture of a company. In most cases, the control environment seemed to be accurate. In four cases the culture was focused on committing fraud, or would eventually become a fraudulent culture. In the other cases the control environment seemed to be alright. They were just victims of the behavior of (a small group of) perpetrators, while the company did not agree with their actions. There was actually only one case in which the fraudulent acts were actually what the business was about. Later on it would become clear that this was a company ran by criminals. All of them had been convicted for previous crimes.

The other cases where the control environment was insufficient did not start out this way. But being overwhelmed with the amount of money that became available, the greed took over and messed up the control environment. So overall, the control environments at the fifteen cases wanted to provide a legit working culture. However, some rotten apples did not apply these rules to themselves. The second component is named risk assessment, which assesses the risk of fraudulent acts happening within the organization. Based on the fact that all cases had fraudulent acts, risk assessment seems insufficient. However, one case was able to directly notice and act on the fraud. But a positive score for one out of fifteen is of course insufficient, especially when assessing the risk involved with CEO/CFO or other high ranked employees. In most of the cases anyone of these positions was involved, but the risk assessment was unable to point this out and improve internal controls. Risk assessment has failed dramatically. It was unable to find risky areas and prevent the fraudulent acts from happening. The third component is the control activities that are performed.

These activities should assure the users that the information they receive is real. In other words, this should make sure that statements about money spent are real and substantiated. Unfortunately, only in one case the control activities were able to pick up trouble right away. In all other cases, the problems were only noticed a year or so later. As a result, the control activities of the fifteen case studies were overall insufficient. The fourth component is that of information and communication. To make sure that everybody is able to perform their tasks as they are supposed to, the communication of information is very important.

The fact that fraud was able to occur, it might be said that the communication of information was insufficient. Based on the case studies, there is little to say about this component. Except for the fact that in most cases not everybody was aware of the fraudulent behavior at hand, and that therefore not all information was communicated effectively. The fifth and final component of internal control is that of monitoring. Monitoring relates to assessing the quality of controls. This component seems to be also insufficient. A great example is that in one of the cases where top management was convinced that their internal controls were watertight and unable to commit fraud with. Unfortunately for them, they had to find out this was not the case. This might give an indication of a common problem. Too much trust is being put in internal control activities, resulting in a lack of quality monitoring. Assessing the five components of internal control with the fifteen cases, it can be said that the level of internal control is insufficient, because the components for internal controls were not fulfilled. Each component seems to not be able to provide the security that is needed. A problem with the firms is that they seem to think the internal controls at their organization are sufficient, when they're actually not.

Finally, the results should tell us why the fraudulent behavior was not noticed, the second sub-question. After assessing the cases, management override seems to be a major issue with the Dutch fraud cases. Especially when considering the fact that most perpetrators were top level employees within the organization. They are responsible for assessing the works of others, but they are not controlled at the same level themselves. That is why it becomes easy to override these internal controls, so that their fraudulent behavior is not noticed. Another issue seems to be with the level of freedom some employees have to act without consulting anybody else. For example in the Rochdale case, investments up to 50 million euros did not need to be discussed. There were other similar cases, where the amount was lower, but the idea was the same. If the perpetrator stays below a certain amount, the chance of getting caught falls dramatically. It might even take years before anybody notices what has happened, or it might even never be found. The main reason of the Dutch fraud cases not being noticed can be concluded to be the freedom an employee has to perform tasks without consulting anybody else. In other words, internal controls are not tight enough when it comes to monetary decisions made by employees.

5.2 Conclusion, Limitations, and Recommendations

The aim of this study was to find out why internal controls in the Netherlands were unable to prevent financial statement fraud from happening, based on multiple case studies in the Netherlands. The CRIMES table highlighted the cooks, recipes, incentives, monitoring, end-results, and sentences that were related to these cases. This study provides evidence of the reason why internal controls failed on the selected fraud cases. The answer is because they can be overruled. The perpetrators that were found guilty of the frauds were in the position to override internal controls. Internal controls are effective unless there is the possibility of management override. When this is the case, the internal controls become irrelevant because they cannot control an override. The guiding premise of this study is fraud in the Netherlands is not so much

related to the ineffectiveness of internal controls, but more on the employment level of the perpetrator.

There has been a lot of research on the theory of fraud prevention (AICPA, 2005; Dorminey et al., 2012; Gupta & Gill, 2012; Kranacher et al., 2010; KPMG, 2006a; Rezaee, 2005) and internal control (COSO, 2011, 2013; Dellaportas, 2013; Kumar & Sharma, 2005; Peterson & Zikmund, 2004; Rezaee, 2005). Even the finding of management override has been well documented already (Schnatterly, 2010; Norman et al., 2010; Klamm et al., 2012). The relevance of this study can be related to all of these areas. First, it contributes to the fraud prevention theory because of the focus on smaller economies, a field of research that is underexposed. An example of why this is relevant is the Brennan & McGrath (2007) study; they do not define the scope of their fraud research further than Europe, even though Europe exists of 51 countries (Europa-nu, 2016).

However, severe cases of fraud can, based on the results of this study, also occur in the smaller economies of the world, pointing out the relevance of this research. For example the Imtech case in the Netherlands, that has cost investors about 1.1 billion euros. The CRIMES table, based on the fifteen selected case studies, pointed out the main factors that were related to financial statement fraud in the Netherlands. It was found that most perpetrators were high-level employees. The first hypothesis proved that the higher the amount of money that is involved with the fraud, the more likely it is for high-level employees to be involved. However, it must be mentioned that this result could be biased due to the small sample size of the randomly selected fifteen case studies. This result is backed by the second hypothesis, stating that financial statement fraud is not a poor man's crime. Of the 34 employment levels that were involved with the Dutch fraud cases, 21 were involved with running an organization. The contribution to the prevention theory can therefore be explained as follows: prevention of fraud in the Netherlands seems to be failing because of the high employment levels of the perpetrators.

Second, it shows that the level of employment is very much related to the effectiveness of internal controls. Part of this can be based on the abovementioned hypotheses. However, the third hypothesis proves the disability of internal controls to have an effect on employees that are in the position to override internal controls, management override (Klamm et al., 2012; Norman et al., 2010; Schnatterly, 2010). It appears to be the case that the higher the level of employment, the higher the probability of the internal controls failing to prevent fraud. Perpetrators that are guilty of management override are detected most of the time due to anonymous tips (Dellaportas, 2013). In only one of the selected cases, internal controls immediately revealed the fraud, because of the low level of employment of the perpetrators. In the fourteen other cases, the perpetrators were able to act in such a way that internal controls were unable to detect what was going on. This proves that the higher the level of employment, the less effective internal controls become.

These findings provide an answer to the research question that this study is all about. Internal controls in the Dutch fraud cases have failed because of their applicability to higher levels of employment. The higher the level of employment, the less effective internal controls seem to become. Even though company culture and characteristics can be focused at letting employees abide the internal controls. When an employee that has the ability to override these internal controls gets it in his or her head that he or she wants to commit fraud, internal controls seem to become obsolete. Based on the fifteen case studies they seem to have no impact at all. Therefore the answer to the research question can be defined as internal controls failing to prevent financial statement fraud in the Netherlands because they seem to have less effect the higher the level of employment becomes. Internal controls contribute to the fraud prevention of lower levels of employment, but high level employees seem to be unaffected by them.

Third, implications for further research were found during this study. Fraud prevention and internal controls seem to be only effective when the perpetrator employment level is low. The higher up in the hierarchy of an organization, the more power an employee has and the less likely it becomes that internal controls will be able to prevent them from committing fraudulent acts. This is a conclusion that can be found based on the results of this study, but needs to be researched more before being able to prove anything. Another relevant point of future research relates to the Netherlands. In the case study four cases, existing of five companies, were active in the investment industry, see graph 2. The level of monitoring by the AFM might need some revising, due to the similar schemes that were used in these cases. Finally, the research brought to light the matter of co-offending in fraud cases. The literature mentioned in the literature review aims at a single fraudster. Free & Murphy (2015) and the KPMG (2012) study find that this is not the case. That fraud is committed by co-offenders. The results of the case studies agree with the theory of co-offending. In nearly all cases, except for TEG, there were more than one perpetrators found guilty of fraud.

There are some limitations applicable to this study. First, the case study is based on only fifteen cases. It might be so that, although the cases have been selected randomly, these cases represent a biased view of the fraud cases that occurred in the Netherlands. Second, the data that was collected was dependent on the availability of data. Some cases had more attention than others, and therefore more data about these cases was available than there was for other cases. Trying to focus mainly on court explanations and decisions that were related to the cases, the facts of the cases were found. As explained earlier, to assure the applicability of the data the focus was on court decisions. This was the main criteria for selecting data that was applicable.

This study aims at creating awareness of the severity of fraud that occurs in smaller economies and countries. Major cultural differences between large and small economies and countries can lead to very different explanations as to why fraud has occurred and could not have been prevented. Even though the investigation of large cases and amounts of money seems to be more attractive, this is not the only fraud that occurs. Other relevant cases seem to be underexposed. This study tries to increase the awareness for these ‘smaller’ cases, because of the

fact that they are just as relevant as any other. When people vote, small towns or communities are not being overlooked because they might pay little contribution to the whole, why should this be the case for fraud in smaller economies and countries?

A recommendation that is the result of this study is as follows. Internal controls are very vulnerable to management override. As discussed above, the effectiveness of internal controls decreases when the level of employment increases. The ethical culture should therefore be focused on. Provide ethical training to make sure that employees that are in the position to ignore internal controls cannot rationalize their behavior (Dorminey et al., 2012). Also, performing background and reference checks on all employees should be able to minimize the risk of financial statement fraud occurring (Bierstaker, 2006; Rezaee, 2005).

Studying the different fraud cases that occurred in the Netherlands, this research has shown that internal controls alone are not enough to prevent fraud. Management override is a problem that cannot be fixed with internal controls. The focus needs to be on the corporate governance and ethical culture of an organization. Creating an atmosphere in which nobody wants to fraud is just as important as having proper internal controls. The practical implication of this research to the accounting practice is to not only focus on the numbers and reliability of controls, but also focus on the culture that is at hand in an organization. The culture of an organization can be of great assistance when assessing the possibility of fraud in an organization. It might also point out possible suspects who cannot identify themselves with the company culture. For those employees it might be easier to rationalize fraudulent behavior, because their beliefs are not in accordance with the beliefs the organization holds. Considering the culture of an organization and the fact that management override leads to higher damages than fraud that can be prevented by internal controls, the importance of these results are very clear. To prevent future fraud cases from occurring, the focus should be on internal controls and ethical culture. The ethical culture of the organization makes sure these internal controls apply to everybody within the firm.

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Appendix 1

Listed companies

The first case that will be discussed is that of **Imtech**, also known as Royal Imtech N.V. It was a Dutch company that was specialized in the fields of electrical engineering, automation, and mechanical engineering. A company that was worth 2.5 billion euros in 2010 (Nods, 2015). Imtech was a company that grew at an impressive rate, but did not have the right governance to back this growth up. At a certain point in time Imtech was involved with 27,000 projects and only had 23,000 employees. It can be imagined that the board is never able to monitor all of these projects and employees. Therefore Imtech installed 100 managers who should monitor the situation and report to the board. However, because nobody checked up on these 100 managers, Imtech got in trouble (Nods, 2015). In 2013 financial misstatements of a project in Poland came to light. Because managers were not being monitored, at least to the extent they were supposed to, they made it look like they were doing better than they actually were (Nods, 2015). This resulted in a financing gap of 146.7 million euros Imtech found out about, but kept from being made public. They covered the gap up, so investors would not get suspicious or lose interest in Imtech, it did not show in the annual report (ANP, 2015b). When the fraud came to light, the CEO and CFO of Imtech resigned. According to the AFM, they should have taken action instead of running from the problems. That is why the CEO got 2 500,000 euro fines, and the CFO got two fines that had a combined amount of 1.35 million euros (ANP, 2015a).

The second case describes the fraud that occurred at **Ahold**, also known as Koninklijke Ahold N.V.. Ahold is a Dutch firm that is the parent company of retail group Ahold, which is listed at the Euronext Amsterdam (AEX). At the time, Ahold was considered one of the market leaders in their field of operation. In 2003 Ahold shocked the business world when it became clear that they would have to restate some financial statements. The CFO and a Board member were the main instigators of the fraud, and they were backed by the CEO (Hof te Amsterdam, 2009). During a certain period of time, Ahold tried to grow due to acquisitions of retailers in different countries. In most cases Ahold became the owner of these retailers for 50 percent. Because they were only 50 percent owners they were unable to put the revenue of their daughters into their own books. Ahold wanted to do so, because this way they could attract extra investments. That is why the CFO and Board member came up with the idea to prepare two side letters. Side letters are used to specify certain parts of a contract and are a normal practice. However, only one of the side letters was available to the public. The other side letter was only known by those that signed off on them. The public side letter stated that Ahold became 100% owner of the acquitted companies. However, the secret side letter stated that the first side letter was untrue. That is why the external auditor in this case allowed Ahold to enter the entire revenue of their daughter into their own books. When it came to light that Ahold had these secret side letters in several business deals, Ahold ran into trouble. An emergency credit of 1.3 billion euros was needed to save Ahold, and the financial statements needed to be restated (Oranje & Wester, 2004a; 2004b; 2004c). As a result, the CEO got a 30,000 euros fine. The CFO was fined

for a 100,000 euros, combined with a conditional jail sentence of six months with two years' probation. The Board member that was involved got a 50,000 euros fine, combined with a 3 month jail sentence and two years' probation (Hof te Amsterdam, 2009).

The following case is that of **Delta Lloyd**. Delta Lloyd is a Dutch insurance company. In 2008 Delta Lloyd stumbled onto some doubtful invoices and reported this to the authorities. It seemed that during the period of 2005-2008 a technical manager of Delta Lloyd had embezzled 4.5 million euros from the company. In association with some contractors, the employee composed false projects and declared false invoices. Delta Lloyd paid these bills and via money transfers to several private companies and that is how the money came back to the perpetrators (Arrondissementsparket Den Haag, 2010b). The employee was seen as the prime suspect and for a period of almost three years he abused his function at Delta Lloyd for his own gain. His actions not only hurt his employer, but also the faith of the consumer in the financial institutions (Arrondissementsparket Den Haag, 2010b). He was, inevitably, fired on the spot when Delta Lloyd found out. His behavior earned him a 5 year jail sentence (Arrondissementsparket Den Haag, 2010b) and a repayment of 3.3 million euros to Delta Lloyd (Rechtspraak.nl, 2014). 5 other contractors that were responsible according to the court, were sentenced to jail time varying from 4 months, in combination with community service and fines, to 20 months of which 8 months conditionally (Arrondissementsparket Den Haag, 2010b).

SBM Offshore is the company that also represents one of the case studies. SBM Offshore is a Dutch company that sells systems and services to offshore oil and gas industry. The company had a total revenue of 3.6 billion dollars during 2012 (SBM Offshore, 2012). Because they are listed at the AEX in Amsterdam, have a registered office in the Netherlands and total revenue >500 million euros, the Nederlandse Corporate Governance Code applies to SBM Offshore (NCGC, 2016). SBM Offshore got into trouble when a whistleblower published their wrongdoings in Africa. According to this whistleblower, the Board of SBM Offshore was aware of the "comprehensive and systematic corruption" that occurred. Tens of millions of euros were paid in bribes to ensure contracts for SBM Offshore in several countries. According to Dutch law, the information about these bribes, that was known to the board, had to be shared with the shareholders. This kind of information can have an impact on the behavior of investors (Nieuwsuur, 2015). The responsible Board was replaced in 2012, and the new Board started an investigation into the allegations of the whistleblower. They also were full compliant to the investigations that were started by the public prosecutor and FIOD. Also, the new Board took action to prevent certain behavior from happening ever again. These were three reasons the court needed to settle with SBM Offshore. A total payment of 240 million dollars had to be paid as punishment for their actions. A 40 million dollar fine for breaking the law, and a confiscation of 200 million dollars (Nieuwsuur, 2015; Functioneel Parket, 2014a). SBM Offshore was allowed to pay the settlement in three terms, which would end after a period of three years (OM, 2015). The fine had a negative effect on the stock price of SBM Offshore, victimizing their investors.

SBM Offshore was also a victim of its own crime, because it had to pay back an immense fine and suffered reputational damage because of their own behavior.

Heineken is the next company on the list where fraud occurred. Heineken is the all over the world brand of beer that originated in the Netherlands. The Heineken case is different from the others in the sample because of the fact that the fraud was recognized almost immediately. Three temporary workers were able to embezzle 2.6 million euros of Heinekens money (NRC, 2007). The fraud started in January 2007 and in February 2007, after Heineken made sure what they found was what they think it was, went to the police. Using false invoices they diverted money away from Heineken and transferred the money to fake firms that would eventually get the money back to the perpetrators. The fraud was committed by three temporary employees, who had help on the outside of six other perpetrators. One of these six was the brains of the operation. The brains of the operation was sentenced to 30 months of jail time (AD, 2008; Arrondissementsparket, 2010a). The three temporary workers were all sentenced to 2 years in jail, of which 8 months conditionally. The 2.6 million that was stolen was paid back through settlements and sentences. However, about 168,000 euros of the stolen 2.6 million was never returned to Heineken because they lost this case in court (Rechtspraak.nl, 2008). Internal control at Heineken seems to be at the right level, considering they immediately caught the perpetrators.

Investment industry

Easy Life Investments, better known as Easy Life, was a Dutch investment company. Investors could invest their money in the company, and in return the company would buy the life insurances of people in the US. In 2006 some irregularities at Easy Life were noticed by the AFM. However, they did not fine them directly. Because they needed to be a 100 percent sure before they discredited a good company's name (ED, 2015). That is why, until the Easy Life was foreclosed and thoroughly investigated by the public prosecutor, Easy Life was able to keep recruiting new investors. These investors paid a minimum amount of 50,000 euros, and in return they would receive a nine percent interest rate and 70 percent of the investments would be directly invested in life insurances (Functioneel Parket, 2008a; 2010). The total amount of investments that was collected was 42 million euros. 35 of the 42 million were used for private investments, think of foreign real estate, expensive cars and a boat (Functioneel Parket, 2008b). Eventually Easy Life was found guilty of embezzling large amounts of money through investments from outsiders. This led to a 3.5 year jail sentence for the General Manager. The Manager responsible was sentenced to a 4.5 year spell in jail. And finally, the Director of Easy life was sentenced to 8 months in jail (Rechtspraak.nl, 2015). All of these perpetrators acted with the sole purpose of enriching themselves with other peoples' money.

Future Life, also an investment company, was also found guilty of fraudulent acts. Just as the Easy Life case, Future Life promised their investors a higher interest rate than they would receive from the bank. The initial amount that needed to be invested was 50,000 euros. One of the Directors of Future Life had previously had a job at a bank. At this job he advised people

what to do with their money. In this job, he had gained the trust of people that were looking for investments. When Future Life was founded, these people were again reached out to. Because the Director had always aimed to perform his job in the best interest of the clients while working at the bank, there was no reason for these people not to trust Future Life. This way Future Life lured customers into their scam. Instead of the investments going to Luxemburg as promised, the investments went straight to other companies owned by the Director. These companies invested money against a twelve percent interest rate into other companies. This way people that invested in Future Life were supposed to get their promised interest rate, and other companies obtained the investments they needed (Opgelicht, 2013). In 2010 the DNB (De Nederlandsche Bank) filed a complaint against Future Life, which led to an investigation by the FIOD (Fiscale Inlichtingen- en Opsporingsdienst) and OM (Openbaar Ministerie/Public Prosecutor) (ANP, 2011). The complaint was the result of 3 employees alarming the authorities about the fraudulent behavior at the firm (Opgelicht, 2013). Eventually this led to a 4.5 year jail sentence and a 3.8 million euro fine for the Director that was responsible for breaking trusted clients' trust. The other Director was sentenced to 3.5 years in jail and a 1.9 million euro fine because of his part in the fraud, investing the money different from how it was promised (ANP, 2013). Their actions caused 60 people to lose their cumulative investment of 8.8 million euros.

Palm Invest, another Dutch investment company that committed fraudulent acts. Palm Invest offered, just as in the previous two cases, investments with a minimum buy-in of 50,000 euros. Doing so, they were off the scope of the AFM. Investors would invest in the palm islands that were created in Dubai. Only a year after the investment company was founded, it was caught spending other peoples' money for private purposes (Van Alphen, 2007). In an attempt to gain some of the stolen money by the two owners of the firm, one of them got kidnapped and got his toe amputated by criminals (Wellens, 2009). An approximate total of 400 investors put money into the Palm Invest scheme. This resulted in 30 million euros invested in the company, of which 20 million was used for the private purposes of the owners (Ressortspakket, 2013). For embezzling other peoples' money and using pictures to bribe investors, both owners of Palm Invest were found guilty, and have to spend 4 years and 9 months in jail (Smal, 2015).

The next case is about multiple investment companies. Because the owners of both investment companies were the same persons and they committed the same acts, the court decided to treat the two cases as one (Van der Boon, 2010). These two companies were known as **Golden Sun Resorts and Royal Dubai**. Golden Sun Resorts' investments went into Turkish hotels, as for the Royal Dubai's investments went into real estate in Dubai, supposedly. However, this was a scam from the start. A total of approximately 650 investors put their money into either one of these companies. All of them were in for at least 50,000 euros, an amount that cumulated to 49 million euros (Smits, 2010). This led to the court sentencing all of the four criminals involved to a jail sentence. The brain of the operation was given five years in jail, as for the other three all of them had to be in jail for four years. All of them were also sentenced to paying back the 49 million euros they obtained through these schemes (Smits, 2010).

Entertainment industry

The Entertainment Group (TEG) also suffered from fraud. TEG was a Dutch company that worked as a producer and focused mainly on Dutch artists and events. If anyone wanted to book an artist, TEG was the first place they should look to make the arrangements. However, due to some severe malpractice TEG went bankrupt, and in an attempt to save the company some fraudulent acts were committed. Costly acquisitions, a sloppy administration and the embezzlement of 300,000 euros were the downfall for the country's largest entertainment company (De Witt Wijnen, 2010). In an attempt to save the company false invoices were made up worth 3.8 million euros. Doing so tax returns would increase and it might save the company. Unfortunately, it was already too late because of the severe malpractice in the past. When the fraudster that tried to save the company noticed that it was too late, he casually transferred about 300,000 euros from TEG to his bank account. The perpetrator at TEG was the Director and commissioned CFO, he was sentenced to 15 months in jail, of which 5 months conditionally (Rechtspraak.nl, 2014). Eventually TEG went bankrupt and investors lost all their money, considering that 23% of the company was worth about 27 million, about 110 million euros was lost (Z24, 2009).

Real estate industry

Next, there is the **Rochdale** case. Rochdale is a Dutch housing company that is based in and around Amsterdam. They rent a combined total of about 41,000 spaces, either to live in or e.g. store stuff. A former Rochdale CEO was responsible for the fraud that happened at Rochdale. His suspicious behavior first came to light when he bought real estate for 46.5 million euros. That same piece of real estate was bought several weeks before this purchase, for nearly half the price Rochdale paid (Van der Boon, 2015). The second Rochdale found out that their CEO was a fraud, they hired an external auditor to investigate other shady business deals made by him (ANP, 2009). The CEO was found guilty of accepting bribes, money laundering, and perjury. He also paid himself a pension rate that was too high, declared false invoices and paid for services that were never performed (Mos, 2012b). But he was not the only one involved in this case. Outside contractors who paid him bribes were also sentenced (Mos, 2012a). Another interesting fact is that the CEO's wife was also found guilty of accepting bribes (Van der Boon, 2015). The reason for this fraud was that the former CEO wanted to obtain a luxurious lifestyle which he was not able to afford himself. Think of driving a Maserati and having a vacation home in Spain. For conducting these crimes, the CEO got sentenced to a 2.5 year spell in jail. His wife was sentenced to 240 hours of community service. Two other contractors that paid bribes to the CEO were sentenced to one and two months in jail, combined with 240 hours of community service each (Van der Boon, 2015).

The next case is not about one company. It is a fraud that occurred because the top management of several companies partnered up to start one of the largest fraud cases in the Netherlands. It is called the **Klimop case**, a case that has caused total damages between 200-250

million euros. The fraudsters earned these hundreds of millions due to illegal transactions as a part of real estate projects. Philips Pensioenfond and Bouwfond suffered greatly because of the fraudulent acting of the perpetrators. The case came to light when the parent company of Bouwfond started an investigation as to why some investments were not as profitable as they should be. At around the same time the FIOD had seen enough of the shady real estate deals and felt the need to investigate whether or not these were legit (Posthumus, 2012). The suspects supposedly performed their actions out of pure greed, they were already rich but this just was not enough for them. The OM saw great similarities in the behavior of the suspects and criminal organizations. For example, none of the perpetrators showed any remorse or apologized to the victims of their scams. Therefore, the OM thinks that only severe punishment fits the actions of the suspects. The punishments varied from 60 hour civil service to 7 year jail sentences. Also fines that varied from 15,000 euros to 300,000 euros (Functioneel Parket, 2011). Some closing remarks on the case by the OM, giving a short summary of the Klimop case. The Klimop investigation started in 2006 and was commissioned by the Functioneel Parket. The results of this investigation brought to light that a large number of suspects was involved with the development of real estate projects and that they probably committed fraud. They would have done so by falsely increasing invoices or charging invoices without anything return. With the use of intermediaries the money found its way back to the suspects. Also there was trading in real estate against a certain price, while they knew there was added value which would eventually come back to them. The suspects were accused, and found guilty, of participating in a criminal organization that scammed Bouwfond and Philips Pensioenfond, and embezzling funds from these firms. The total amount was between 200-250 million euros and Bouwfond, Philips Pensioenfond, their shareholders and pensioners were the major victims in the Klimop case. The suspects were also found guilty of the fact that their actions resulted in reputational damage for trade in the real estate sector (Ressortsparket, 2015b).

Manufacturing industry

The next case on the list is that of **Janssen de Jong Infra (JJI)**, a construction company that operated in the southern county of Limburg. In early 2009 several employees of JJI were arrested, which raised questions at parent company Janssen de Jong. The parent company started an investigation into the behavior of JJI. Eventually they were convinced that their internal control system did not allow any anomalies and that they would rather lose money than their integrity (Accountant.nl, 2009). However, during the investigation some illegal activities came to light. JJI had some unlawful money withdrawals from the company in their books. These unlawful money withdrawals were allegedly used to pay off civil servants that had the authority to appoint projects. In return for appointing several projects to JJI, JJI employees feted the civil servants with cars, trips abroad, and tickets for sporting events (DFT, 2009). Another thing that came to light was that subcontractors were being paid without ever doing anything in return. Eventually the CEO of JJI was sentenced to 12 months in jail, and the regional manager was sentenced to 14 months in jail. Both were found guilty of paying bribes and making price

arrangements. This also resulted in a fine of 3 million euros for JJI (NOS, 2012). Thanks to the actions of the two perpetrators JJI was denied any projects in a certain city of Limburg, and suffered from severe reputational damage. As a result, JJI lost lots of potential contracts and had to eventually be sold to an Austrian company (Quotenet.nl, 2013).

Transport industry

Rynart Transport was a Dutch company that also had establishments in Hungary and Turkey. After a period of spectacular growth, especially in Hungary, the transport company went bankrupt in 2007. This was the beginning of noisy period, as the board of Rynart Transport was accused of accounting fraud. Especially the revenue in Hungary, that was 75% of the firm's total revenue, should have been falsely raised with 55 million euros. Lenders of Rynart Transport lost a total of 123 million euros when the company went bankrupt (FTM, 2012). To be able to scam several lenders, e.g. Rabobank and ABN AMRO, Rynart Transport had manually altered their books. With the use of false sales invoices and a fake administration they were able to convince the lenders that they were a good company that would have no problems whatsoever with paying back the loan (Van der Voort, 2011). Rabobank even invested 88 (!) million euros (FTM, 2012). An investigation into Rynart Transport by the FIOD eventually led to the arrests of 8 former employees of the firm (Van der Voort, 2011). Of the 8 former employees that were suspected of fraud, there were 4 prime suspects. The other 4 settled with the justice department. This led to community service of 160 hours and a 10,000 euro fine for two of them. The other two had to perform respectively 140 and 65 hours of community service. The 4 prime suspects were not so lucky as to get a chance to settle, they were too much involved in the swindle (FTM, 2012). This led to 37 months in jail for the CFO of Rynart Transport, and 4 years in jail for the CEO of Rynart transport. The other two prime suspects were found free of charge, their involvement could not be proven. The bankruptcy also cost approximately 2400 people their jobs (Kamp, 2015).

Government

The final case is that of the **Ministry of VWS (Health, Welfare, and Sports)**. The fact that in this case fraud occurred within the Dutch government raises some concerns. If the government cannot prevent this from happening, who can we trust? Fraud at the Ministry of Health, Welfare, and Sports (VWS) has led to the embezzlement of 22 million euros of the governments money. This was found during an investigation done by the national detectives department and financial detectives. The national detectives department as a result took 7 individuals into custody. Three of these individuals were placed in temporary custody. A 58 year-old male from Zoetermeer, a 49 year-old male from Vlaardingen, and a 59 year-old male from Zeist. One of them is a former civil servant for the Ministry of VWS. They are suspected of forgery, scams, bribery of a civil servant, and participating in a criminal organization (OM, 2006). The Ministry of VWS vouched for loans that the Bank Nederlandse Gemeenten (Bank Dutch Municipalities) provided to a foundation that was supposed to realize projects for the care

of the disabled. In reality, these projects did not take place. The money was almost instantly transferred to other foundations, companies, and individuals. In total, there were 6 of these false loans transferred to the wrong accounts, totaling approximately 22 million euros (OM, 2006). At first it might look like the disabled people suffered from the perpetrators actions. However, the government has ensured that the 22 million that was lost will not be for the sake of the disabled (ANP, 2006). The 22 million were never found, after they left the Ministry they were immediately transferred to other foundations and companies. From there on the money was untraceable (NRC, 2008). Eventually, the 22 million was paid for by the tax payers. Which means that almost the entire country suffered from this fraud. Three suspects were sentenced to jail time. The prime suspect, responsible for embezzling the money after it was stolen from the Ministry, was sentenced the 3.5 years. The civil servant was sentenced to 1 year in jail, and the treasurer of the prime suspect was sentenced to 2 years in jail.