

# Accounting for Success

## Fraud Trends CPAs Are Seeing and What They Mean for Bank Controls



**John A. Still III, CPA**  
Supervisor – Accounting  
& Auditing  
Belfint Lyons & Shuman, P.A.

*“Account reconciliations continue to be one of the most effective tools for detecting fraud, yet they are also one of the most common failure points.”*

**F**raud rarely begins with a single large transaction. More often, it starts quietly, in small amounts, with infrequent activity, or minor internal control overrides that escape notice. By the time fraud affects financial statements or regulatory reporting, it has typically been occurring for months or even years. Across audits, internal control reviews, and investigations, several trends continue to emerge, each carrying important lessons for banks and trust companies. Let’s review some of these trends below.

### **Fraud Losses Are Large and They Persist**

Industry data confirms what many practitioners observe firsthand: fraud remains both widespread and costly. The Association of Certified Fraud Examiners (ACFE) *Occupational Fraud 2024: A Report to the Nations* documents that occupational fraud is a multi-billion-dollar problem. The study reviewed more than 1,900 actual fraud cases investigated between January 2022 and September 2023, with estimated total losses of \$3.1 billion, or approximately \$1.7 million per case.

### **Control Breakdowns, Not Sophisticated Schemes, Drive Most Fraud**

Despite increasing attention on cybercrime and external threats, the majority of fraud CPAs encounter results from basic internal control failures. Common issues include lack of segregation of duties, insufficient review of reconciliations, and weak informal processes that gradually become permanent.

In smaller institutions, staffing limitations may lead to individuals performing multiple incompatible functions. In larger organizations, automation can create blind spots when exceptions are not reviewed by human eyes. In both cases, fraud risk increases when control gaps create opportunities for improper activity.

Controls do not need to be complex, but they must be consistently applied, clearly documented, and periodically tested.

### **Trusted Employees Are Often Involved**

ACFE research highlights that occupational fraud frequently involves individuals with no prior fraud charges or convictions, often employees who are well-regarded and deeply embedded in the organization. Familiarity and trust can unintentionally reduce scrutiny, especially when an individual is viewed as indispensable.

Fraud can emerge gradually as a trusted person assumes additional responsibilities over time, eventually holding multiple incompatible functions. While this may increase efficiency, it reduces accountability and elevates risk. Strong internal controls protect employees as much as institutions. Role rotation, mandatory vacations, and independent review are not signs of distrust, but are sound risk management practices.

### **Reconciliations Remain a Critical Defense**

Account reconciliations continue to be one of the most effective tools for detecting fraud, yet they are also one of

the most common failure points. Reconciliations may be prepared but not reviewed, reviewed but not questioned, or completed weeks or months late. Reconciling items that roll forward indefinitely provide an ideal cover for improper activity.

Timely reconciliations with meaningful review by someone who understands the underlying activity remain a foundational control.

### **Automation Reduces Errors but Can Mask Fraud**

Automation has improved efficiency and reduced manual errors across banking operations, but it has not eliminated fraud risk. Fraud can leverage automated processes, such as unauthorized changes to standing instructions, vendor information, or system access that go undetected because transactions flow through systems as designed.

When controls rely solely on system logic without complementary monitoring, improper activity can persist longer and grow larger. Automation should reduce workload, not oversight.

### **Documentation Matters More Than Ever**

In today's regulatory environment, undocumented controls tend to be treated as nonexistent by CPAs and regulators.

Even when management believes a control is operating effectively, the absence of evidence undermines that management's assertion.

From a CPA's perspective, weak documentation often correlates with weak execution. Clear policies, defined responsibilities, and retained evidence of review are essential, not only for audits and examinations, but for effective governance and accountability.

### **Looking Ahead**

Fraud risk evolves as banking operations, technology, and staffing models change. For banks, the implication is clear. Even isolated control weaknesses can allow losses to accumulate over time. Fraud is not a theoretical risk or a rare event; it is an ongoing operational reality that must be actively managed. The most effective institutions are those that regularly reassess controls and reinforce a culture of accountability.

Strong internal controls are not merely a compliance exercise, they are a strategic asset that protects the institution, its employees, and the communities it serves.

