Forensic Audit Workshop

Fraud Response Management
BEST WESTERN CREEKSIDE HOTEL, MOMBASA
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Agenda

❑Definition

❑Fraud Schemes

❑Fraud profile

❑Components of an anti-fraud program

❑Organizations that deny the true possibility of fraud are at the greatest risk

❑"A good plan executed today is better than a perfect plan executed at some indefinite point in the future"

Definition

Adopted the Association of Fraud Examiners (ACFE) definition of fraud as being all those activities involving dishonesty and deception that can drain value from a business, directly or indirectly, whether or not there is personal benefit

Fraud Schemes

Misappropriation of Assets

- Theft or misuse of tangible and intangible assets.
- Fraudulent expenditures.

Fictitious Vendor	Payroll Fraud
Theft of Intellectual Property	Employee Expense Fraud
Theft of Assets	Cash Skimming

Fraudulent Statements Schemes

- Misstatement or omission of material information/accounting records from financial statements.

Improper Capitalization/ Deferral of Expenses	Improper Manipulation of Tax Accounts
Improper Revenue Recognition	Improper Journal Entries
Asset/Liability Manipulation	Management Estimates
Improper Accounting of I/C Transactions	Significant/ Unusual Transactions

Corruption Schemes

- Utilizing influence in business transactions to obtain a personal benefit.
- Bribery and/or extortion.
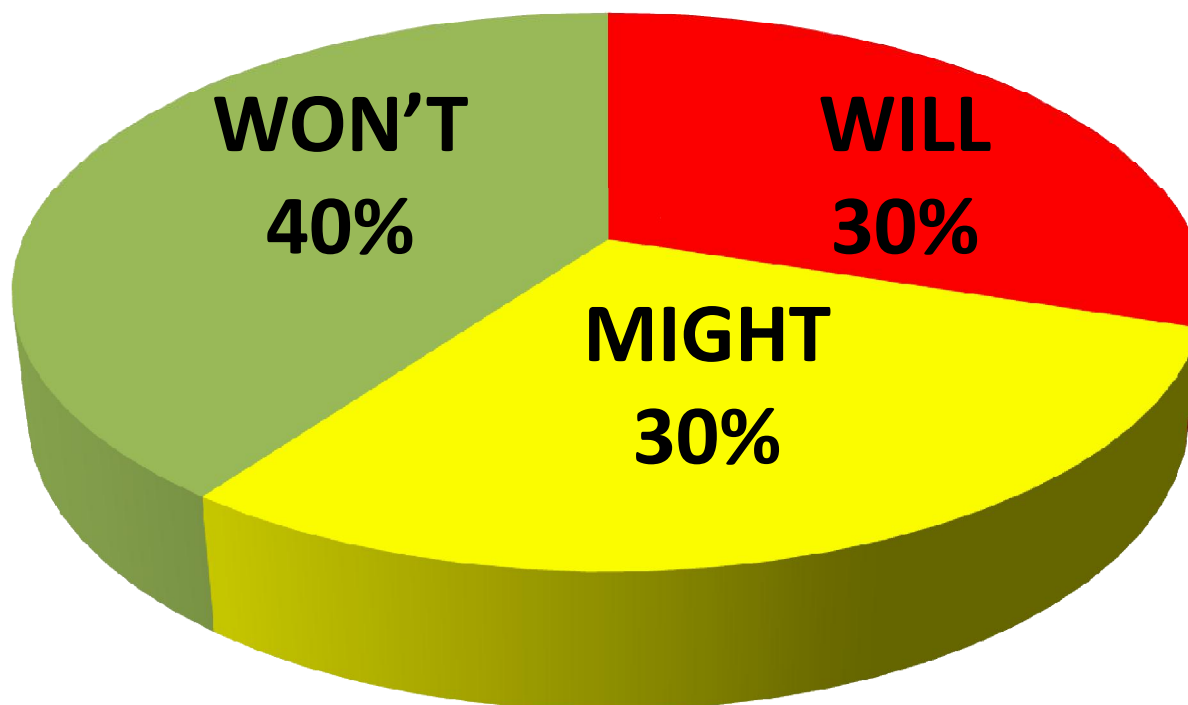- Aiding and abetting fraud.

FCPA/UK Bribery Act	Conflicts of Interest

Procurement Fraud

WHO COMMITS FRAUD?
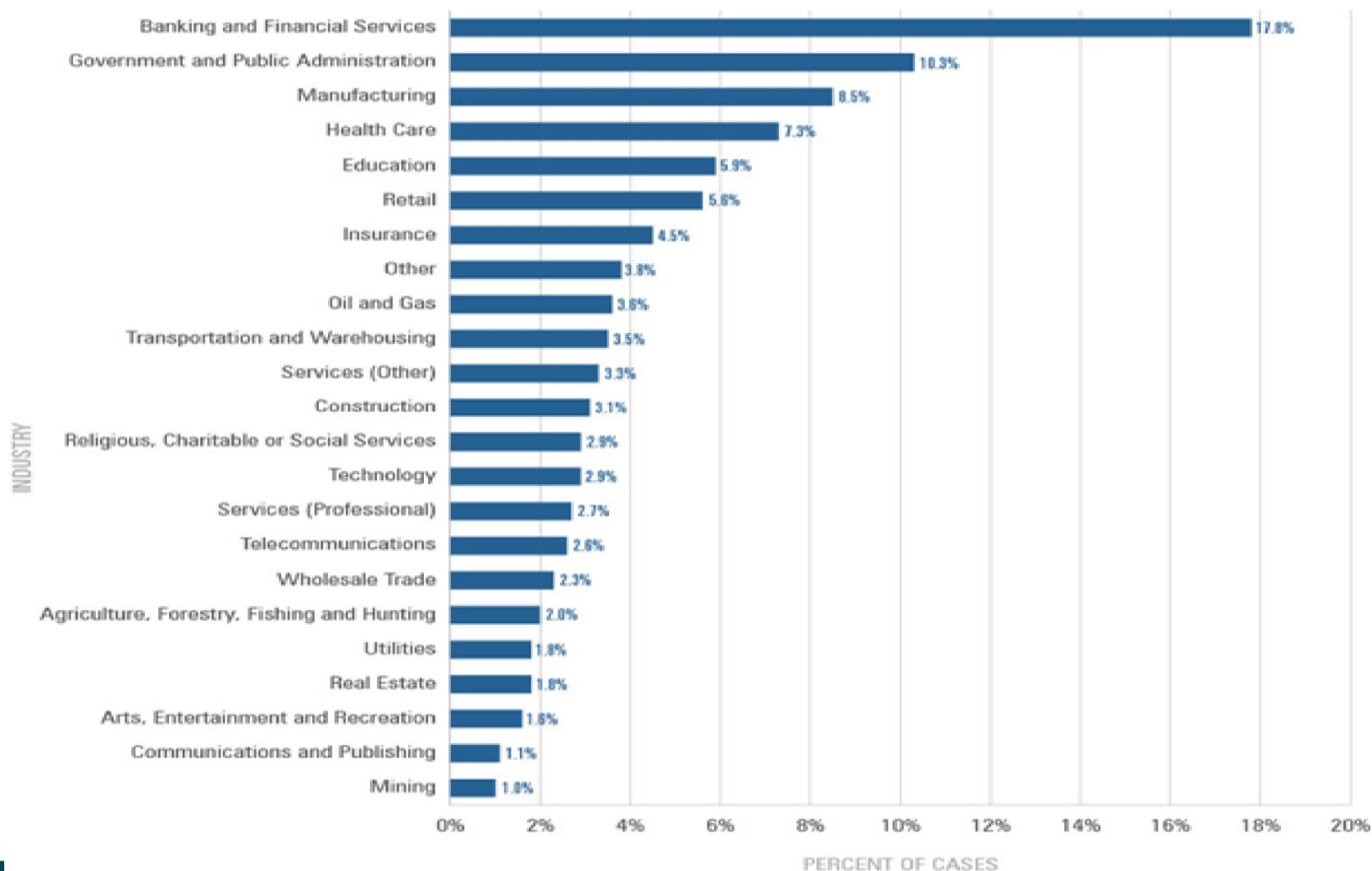
Why and How

The person with Capability

- Position and authority in the organization

- High level understanding of system

- Egoisticc nature

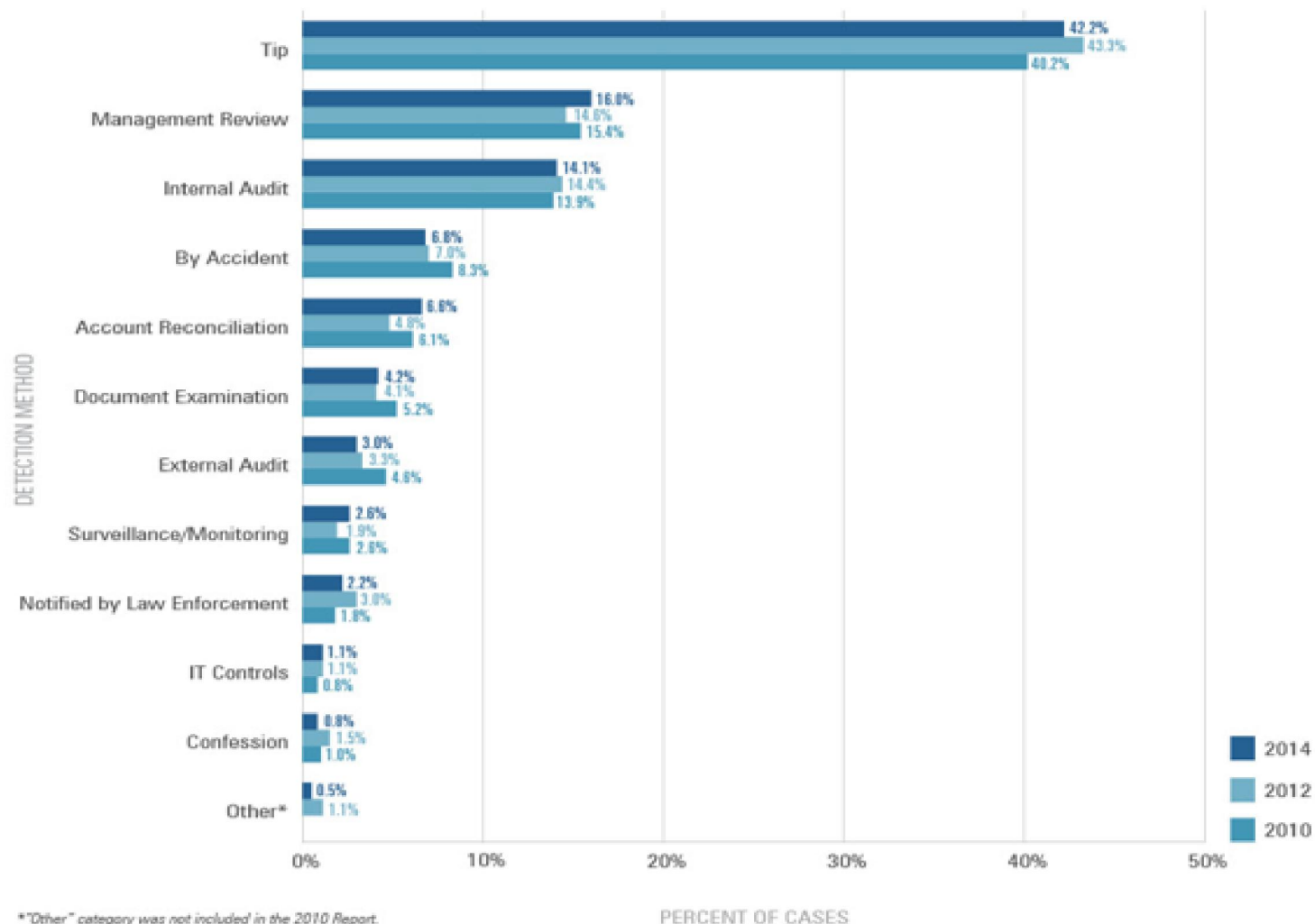- Persuasive & deceptive nature

- Resilience to stress

The Fraud Diamond

Opportunity — Rationalization — Pressure — Capability

The Cost of Occupational Fraud

➤ Fraud is ubiquitous; it does not discriminate in its occurrence

➤ While anti-fraud controls can effectively reduce the likelihood and potential impact of fraud, the truth is that no entity is immune to this threat

➤ Typical organizations lose 5% of their revenues to fraud

➤ All organizations are susceptible to occupational fraud, but different forms of fraud present different levels of risk

➤ The ACFE study analyzed 1,483 cases that caused in excess of $3.7 trillion in losses due to fraud

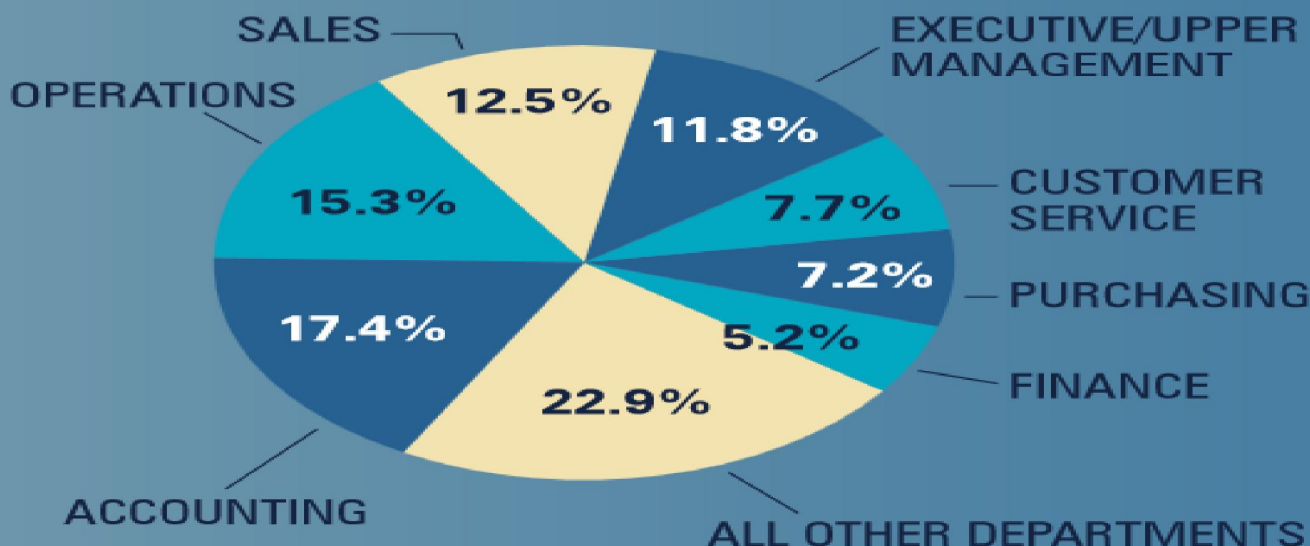➤ The median duration for the frauds was 18 months

Fraud by Industry

Fraud by Industry — Percent of Cases

Industry	Percent of Cases
Banking and Financial Services	17.8%
Government and Public Administration	10.3%
Manufacturing	8.5%
Health Care	7.3%
Education	5.9%
Retail	5.6%
Insurance	4.5%
Other	3.8%
Oil and Gas	3.6%
Transportation and Warehousing	3.5%
Services (Other)	3.3%
Construction	3.1%
Religious, Charitable or Social Services	2.9%
Technology	2.9%
Services (Professional)	2.7%
Telecommunications	2.6%
Wholesale Trade	2.3%
Agriculture, Forestry, Fishing and Hunting	2.0%
Utilities	1.8%
Real Estate	1.8%
Arts, Entertainment and Recreation	1.6%
Communications and Publishing	1.1%
Mining	1.0%

Initial Detection of Fraud

*"Other" category was not included in the 2010 Report.   PERCENT OF CASES

Fraud By Department

Profile of a Fraud Perpetrator

POSITION

The majority of occupational frauds were committed by staff at the employee or managerial level.

42% EMPLOYEE

36% MANAGER

19% OWNER/EXECUTIVE

Profile of a Fraud Perpetrator

MEDIAN LOSS BY POSITION
The higher the fraudster's level of authority, the greater losses tended to be.

$75,000
EMPLOYEE

$130,000
MANAGER

$500,000
OWNER/EXECUTIVE

Profile of a Fraud Perpetrator

GENDER
Male fraudsters outnumbered females two to one.

67% MALE

33% FEMALE

Profile of a Fraud Perpetrator

MEDIAN LOSS BY GENDER

Losses attributed to males were **123%** higher than losses caused by females.

$185,000

$83,000

MALE

FEMALE

Profile of a Fraudster

AGE

52% of fraudsters were between 31 and 45 years old, but older fraudsters tended to cause larger losses.

<26	26-30	31-35	36-40	41-45	46-50	51-55	56-60	>60
$35,000	$57,000	$90,000	$168,000	$153,000	$190,000	$200,000	$238,000	$450,000
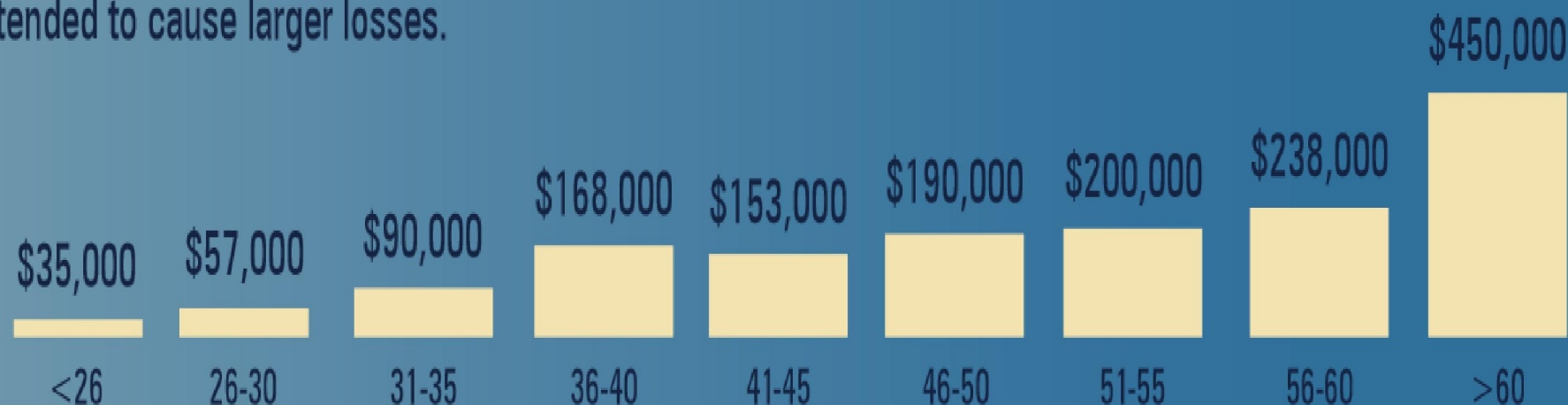
Profile of a Fraud Perpetrator

TENURE

7% of perpetrators committed fraud during their first year on the job. **53%** had been with their organizations for more than five years.

- < 1 YEAR — 6.8%
- 1-5 YEARS — 40.7%
- 6-10 YEARS — 27.3%
- > 10 YEARS — 25.2%
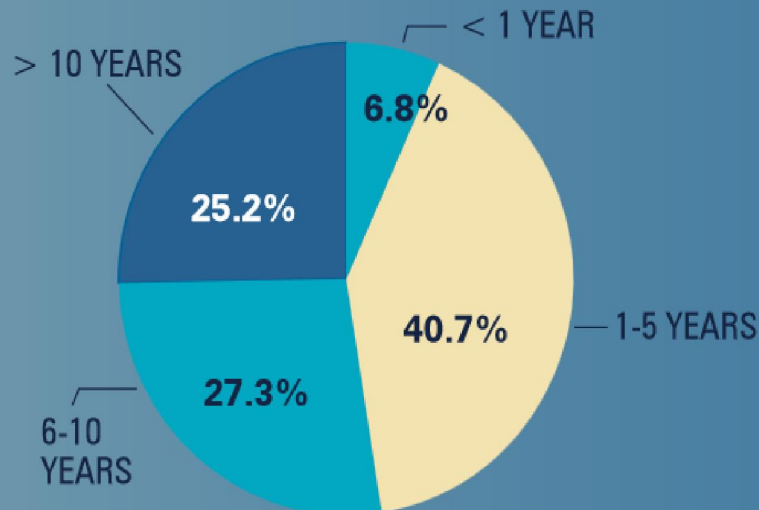
MEDIAN LOSS BY TENURE

The longer a fraudster had worked for a company, the more harm he or she was likely to cause.

- $51,000 — < 1 YEAR
- $100,000 — 1-5 YEARS
- $200,000 — 6-10 YEARS
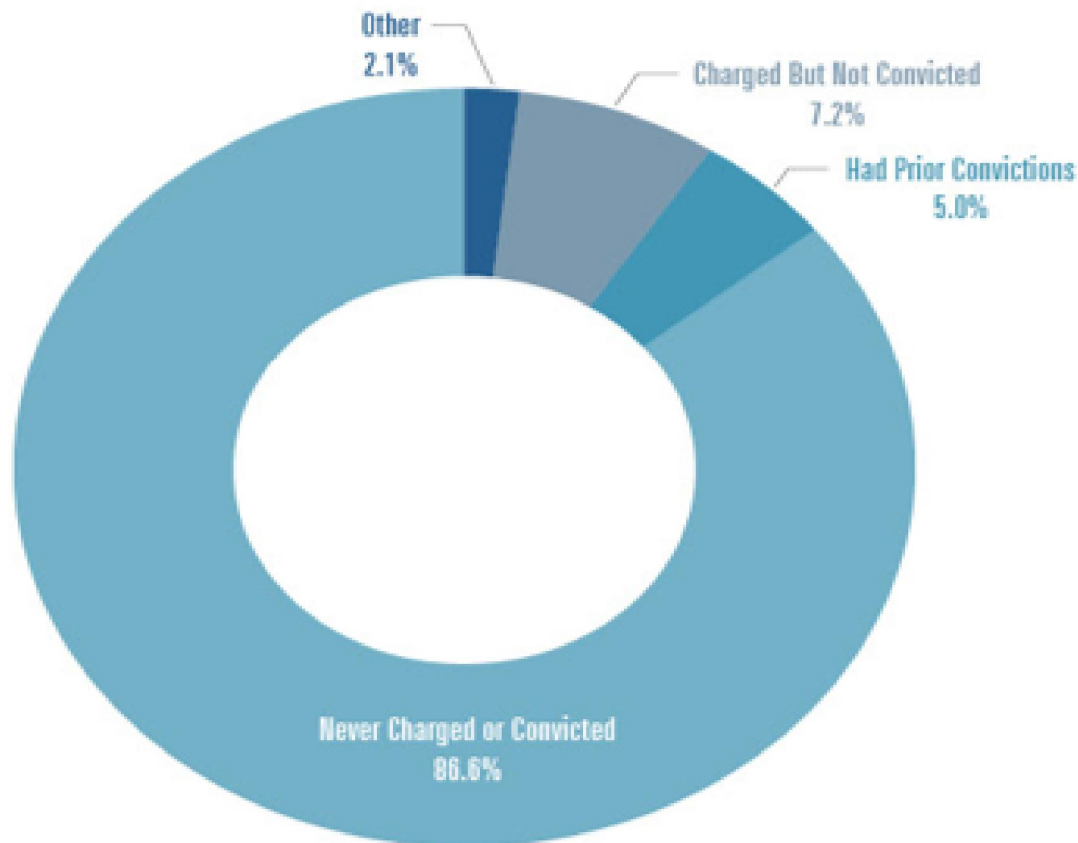- $220,000 — > 10 YEARS

KCB | Making the Difference

Profile of a Fraud Perpetrator

When collusion is involved, median losses due to fraud increase substantially
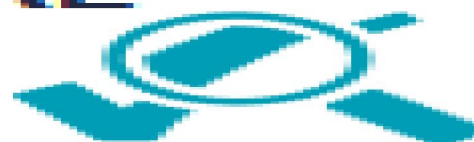
$80,000
one perpetrator

$300,000
two or more perpetrators

Profile of a Fraud Perpetrator

Other
2.1%

Charged But Not Convicted
7.2%

Had Prior Convictions
5.0%

Never Charged or Convicted
86.6%

Control Weaknesses Contributing Fraud

RELIANCE ON EXTERNAL AUDITS

81 PERCENT OF ORGANIZATIONS HAD EXTERNAL AUDITS OF THEIR FINANCIAL STATEMENTS

...YET ONLY

3 PERCENT OF FRAUDS WERE DETECTED BY EXTERNAL AUDITS

CPAK
Credibility · Professionalism · Accountability

Making the Difference

Why Fraud Risk Management

A proactive fraud risk management program:

- ❑ Sends a clear anti-fraud message
- ❑ Demonstrates a sound business strategy
- ❑ Enhances the organization's image and reputation
- ❑ Promotes goodwill
- ❑ Ensures compliance with laws and regulations
- ❑ Directly increases the bottom line

Components of an Anti-Fraud Program

Elements of a successful corporate anti-fraud program

Setting the Proper Tone			Proactive		Reactive
Code of Ethics	Fraud Prevention Policies	Communication and Training	Fraud Risk Assessment	Controls Monitoring and Analytics	Incident Response Plan

← Management Ownership and Involvement →

Anti-fraud key activities

Setting the Proper Tone		Proactive	Reactive
► Corporate compliance program design ► Corporate compliance assessment ► Gap analysis ► Future state design session ► Discovery response planning ► Records and information management	► Who owns fraud? ► Assign roles and responsibilities ► Fraud and risk committee formulation ► Customized training ► Corporate governance ► Design sessions ► Corporate anti-fraud roadmap	► Fraud risk assessment ► Targeted anti-fraud analytics ► Internal control monitoring ► Internal control testing	► Investigations ► Response plan ► Discovery and document review ► Forensic data analytics ► Assessment & remediation ► Continuous improvement