

ICPAK FORENSIC AUDIT SEMINAR

November 2017



What is Fraud?

cyber regulation motivate regulation corruption fraudster rationale theft investigation cyber CAPABILITY values & norms capability rationale forensic collusion opportunity fraud fraudster

Introduction to Fraud

“A false representation of a matter of fact, whether by words or by conduct, by false or misleading allegations, or by concealment of that which should have been disclosed, which deceives and is intended to deceive another so that he shall act upon it to his legal injury.” - Black’s Law Dictionary

The five elements of fraud are:

- A representation about a **material fact**, which is **false**,
- And made **intentionally, knowingly**, or **recklessly**,
- Which if **believed** and **acted** upon by the victim,
- Can cause the victim’s **harm** or **unfair advantage** to the perpetrator..

Understanding Fraud- Fraud related terms

- Error

- Unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

- Irregularities

- Intentional misstatements or omissions in the accounting records or financial statements.

- Wrong doing

- Intentional inappropriate activities such as conflict of interest, gross administrative abuse, misuse of funds or assets, theft, abuse, exceeding or non-compliant with authority thresholds and unethical behavior

- Corruption

- Involves efforts to influence and/or the abuse of public authority through the giving or the acceptance of inducement or illegal reward for undue personal or private advantage.

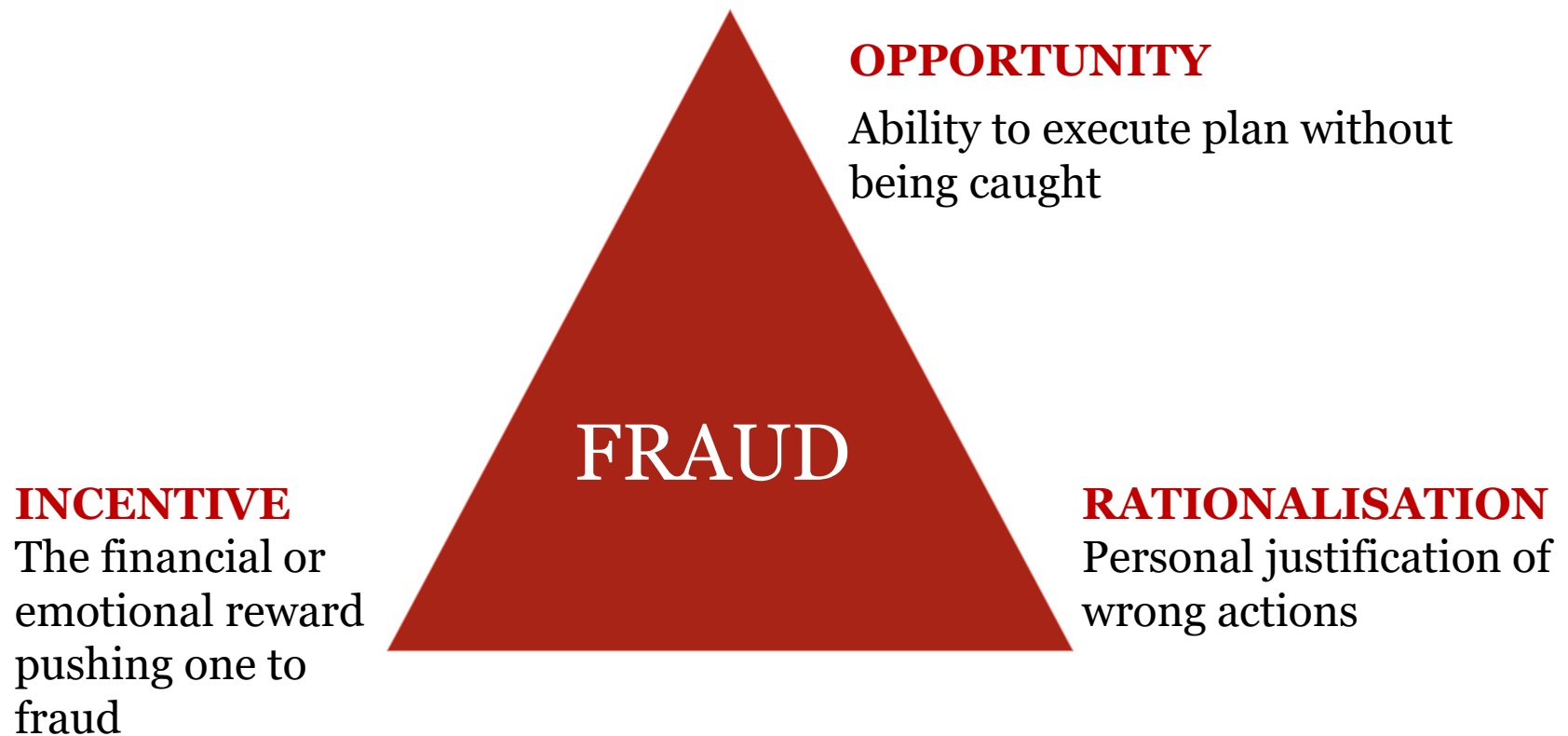
Understanding Fraud- Fraud related terms

- Financial misconduct
 - This refers to willful or negligence in fulfilling: general responsibilities; budgetary responsibilities; and reporting responsibilities.
 - Allegations
 - These are statements of wrongdoing made without proof and can lead to commencement of an investigation.
 - Documentary evidence
 - This means evidence obtained from documentation that is used to support findings and conclusions emanating from an audit/investigation
 - Economic crimes
 - This includes crimes against the public, for example corruption and bribery, as well as crimes involving property, for example theft, fraud and forgery.
 - Fraud examination
 - Refers to a methodology for resolving fraud allegations from inception to disposition.
-

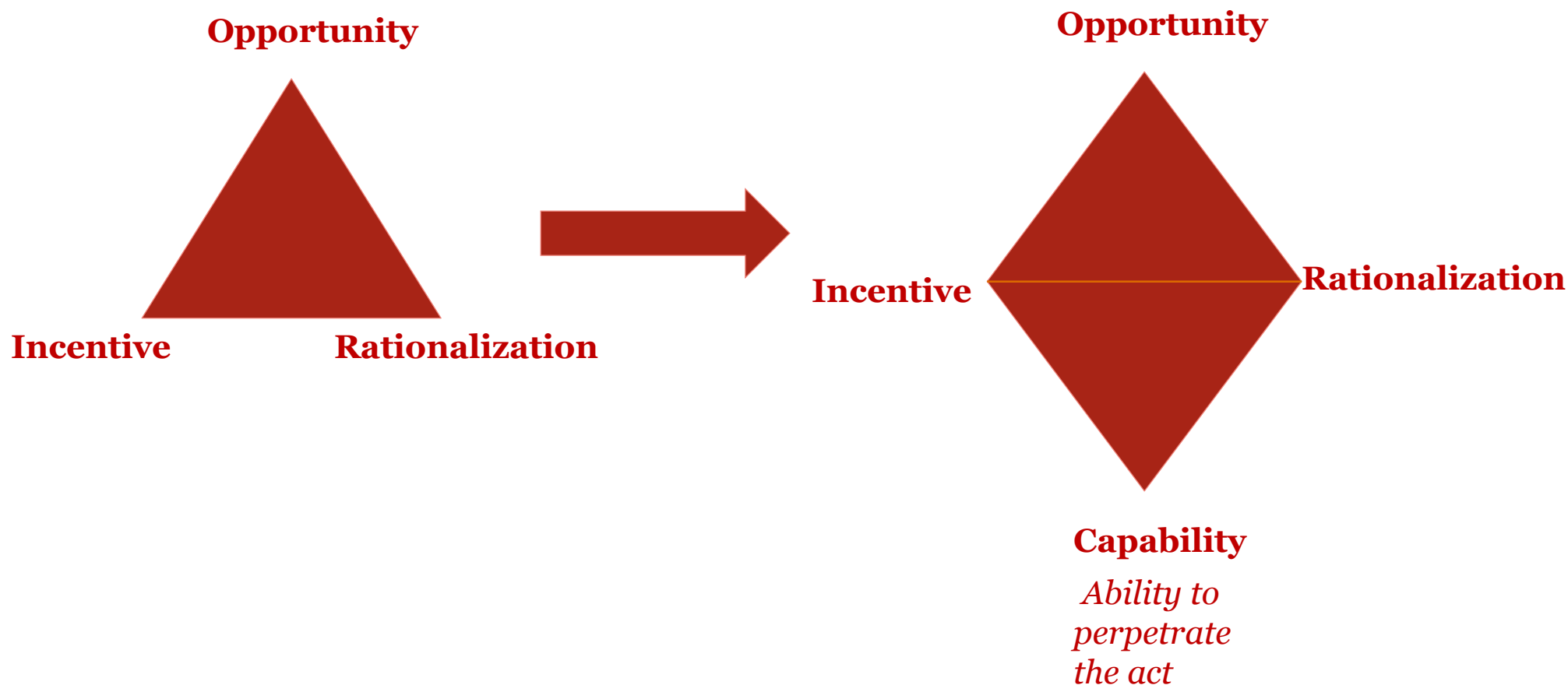
Understanding Fraud- Fraud related terms

- Investigations
- It's the process of fact finding.
 - Fraud risk factors
- Are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.
 - Legal forum
- Refers to a forum that provides a medium for the settlement of matters relating to substantive issues of disagreement or legal action between two or more parties.
 - Money laundering
- this refers to an activity which has, or is likely to have the effect of concealing or disguising the nature, source, location, disposition or movement of the proceeds of unlawful activities.

The Key Drivers of Fraud: The Fraud Triangle



The Key Drivers of Fraud: The fraud diamond



Forensic Audit Vs Financial Audit

Involves review of information that the organization being audited is ready and willing to provide. May at times uncover fraudulent activity though it's not aimed at achieving this.



Financial
Audit

Forensic Audit

Involves a review of the information the forensic auditor requires and is not dependent on what the organization is ready to disclose. It does not offer assurance on compliance with GAAP .

Red Flags of Fraud

Typical irregularities & red flags

Procurement

- Fronting – background checks (supplier database) – Importance of data analytics
- Inflated/fictitious invoices – round numbers, thresholds, diluted purchases – importance of trend analysis
- Tender rigging – background checks, disclosures, evaluation and adjudication of bids, single sourcing
- Service delivery – lack of monitoring (deliberate), inferior quality, incompleteness, scope extensions
- Conflict of interest - retail staff having their own shops that also sells phones

Human resource

- Ghost employees – staff counts, bank accounts, ancillary staff – data analytics
 - Leave – high leave balances (fraudsters do not take leave), leave taken not applied for, abuse of flexible working arrangements
 - Remuneration and benefits – bonus/incentive schemes (linked to performance), false reporting
 - Expenses – non-official trips, trips with suppliers/customers
-

Typical irregularities & red flags

Information Technology

- Cyber crime – hackers (unauthorised access), access routines (accessing specific databases at certain days/times) – IT pen-tests and data analytics

Finance

- Payment approvals – thresholds, delegated authority
- Maker-checker controls – initiator and approver are the same (sometimes due to delegated powers)
- Reconciliations – suspense accounts, high volumes of transactions

Sales & Marketing

- Sales targets – false reporting, periodic hikes, cancelled orders/credit notes
- Sales terms – unauthorised discounts, unusual payment terms
- Abuse of marketing material and benefits – business trips, business credit cards
- Unrecorded sales – cash embezzlement,
- Competitions/promotions – collusion with intermediaries/contestants

Operations

- Misappropriation of assets – staff vehicles, stationery, internet and other accessories
-

Just keep in mind.....

Do not ignore a red flag

Studies of fraud cases consistently show that red flags were present, but were either not recognized or were recognized but not acted upon by anyone. Once a red flag has been noted, someone should take action to investigate the situation and determine if a fraud has been committed.

Sometimes an error is just an error

Red flags should lead to some kind of appropriate action, however, sometimes an error is just an error and no fraud has occurred. You need to be able to recognize the difference and remember that responsibility for follow-up investigation of a red flag should be placed in the hands of a measured and responsible person.

Planning and Execution of an investigation

Forensic investigation lifecycle



Risk Management – Must dos

- Define the objectives and scope the investigation;
- Design a risk management methodology
- Understand the regulatory environment;
- Define the skills and resources required for the job; and
- Understand the nature of evidence required

Strategy & Planning

Type

- *Covert vs Overt*
- *Internal Review*
- *Internal Investigation*
- *Internal Disciplinary proceeding*
- *Civil Proceeding*
- *Criminal Proceedings*

Legal considerations

- *Different jurisdictions*
- *Rights of employees*
- *Contract of Employment*
- *Procedure documents*
- *Evidence gathering options*
- *Whistleblowers*

Activity Plan

- *Identify the tasks and subtasks to be carried out*
- *Agree on the resources manpower, workspace and the security of the team*
- *Assign the tasks to the team and agree on the milestones*
- *Sensitize the plan to time and the budget allocated*

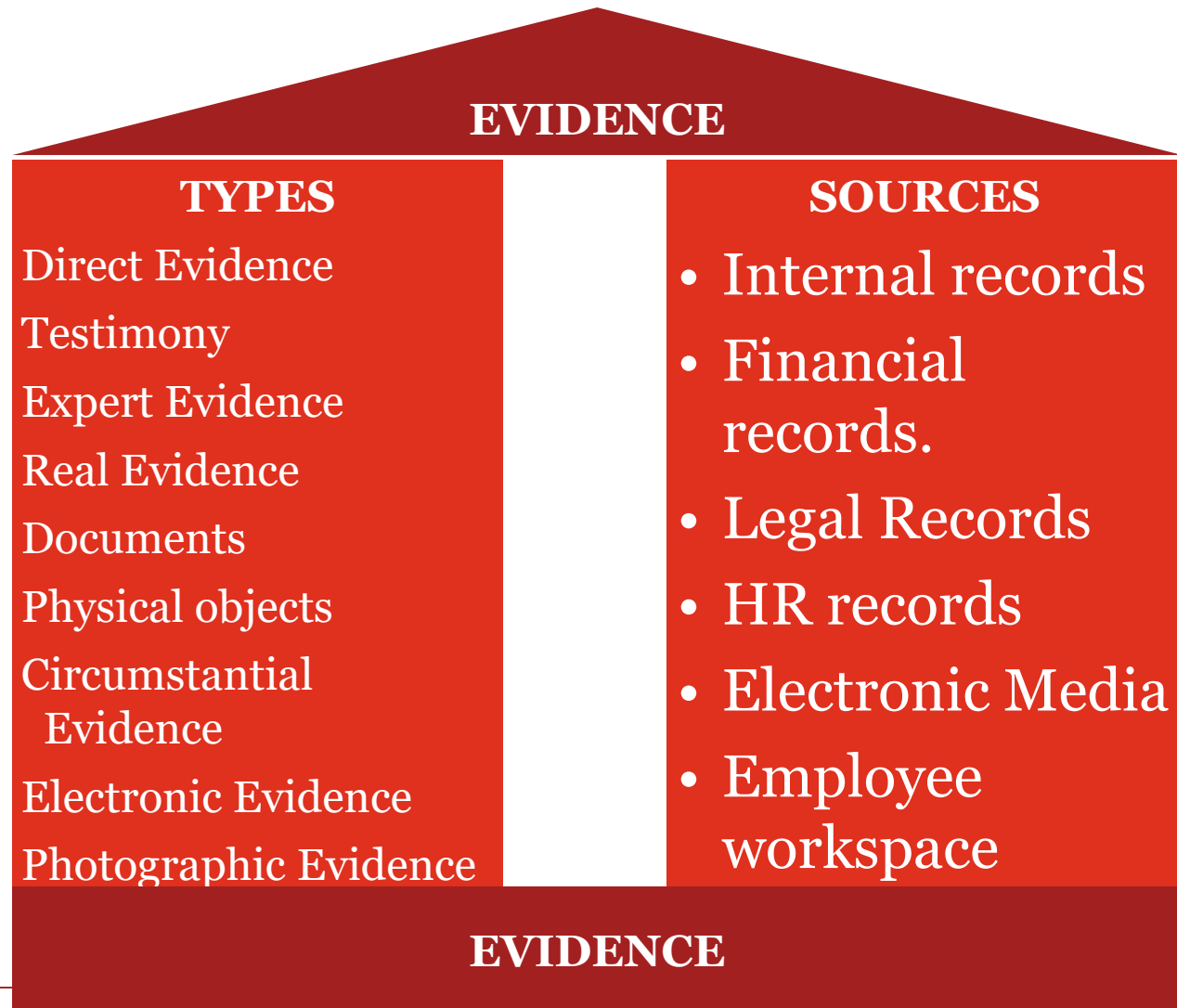
Evidence Gathering: What you need to know

“Evidence is information that may be presented to a **client, court or tribunal** to help it assess the probability of some facts asserted before it, i.e. **information by which the facts tend to be proved or disproved**”

A must know;

- Understand what evidence is
- Provenance
- How to capture and preserve evidence
- Where am I likely to find evidence?

Evidence Gathering: Sources and types of evidence



Evidence Gathering: Methods of evidence Gathering



Evidence Analysis

Document Examination

- Handwriting reading, document authentication, signature experts etc

Data Analysis

- Trend analysis
- Comparison
- Test runs for any exceptions

Interviewing and cross examination

- Understand case for or against the subject
- Other indicators like body language and eye contact

Reporting & Closure

- Purpose of the Deliverable
- Structure of the Report
- All facts must be supported with an exhibits
- The value of the Executive Summary
- Presentation of the report
- Sign off

The End

Annastacia Wacheke
Forensic Consultant

wachekestacey@gmail.com
0723 325 740