



Asset Misappropriation Fraud

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Uphold public interest

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Curbing theft of assets within the organization:

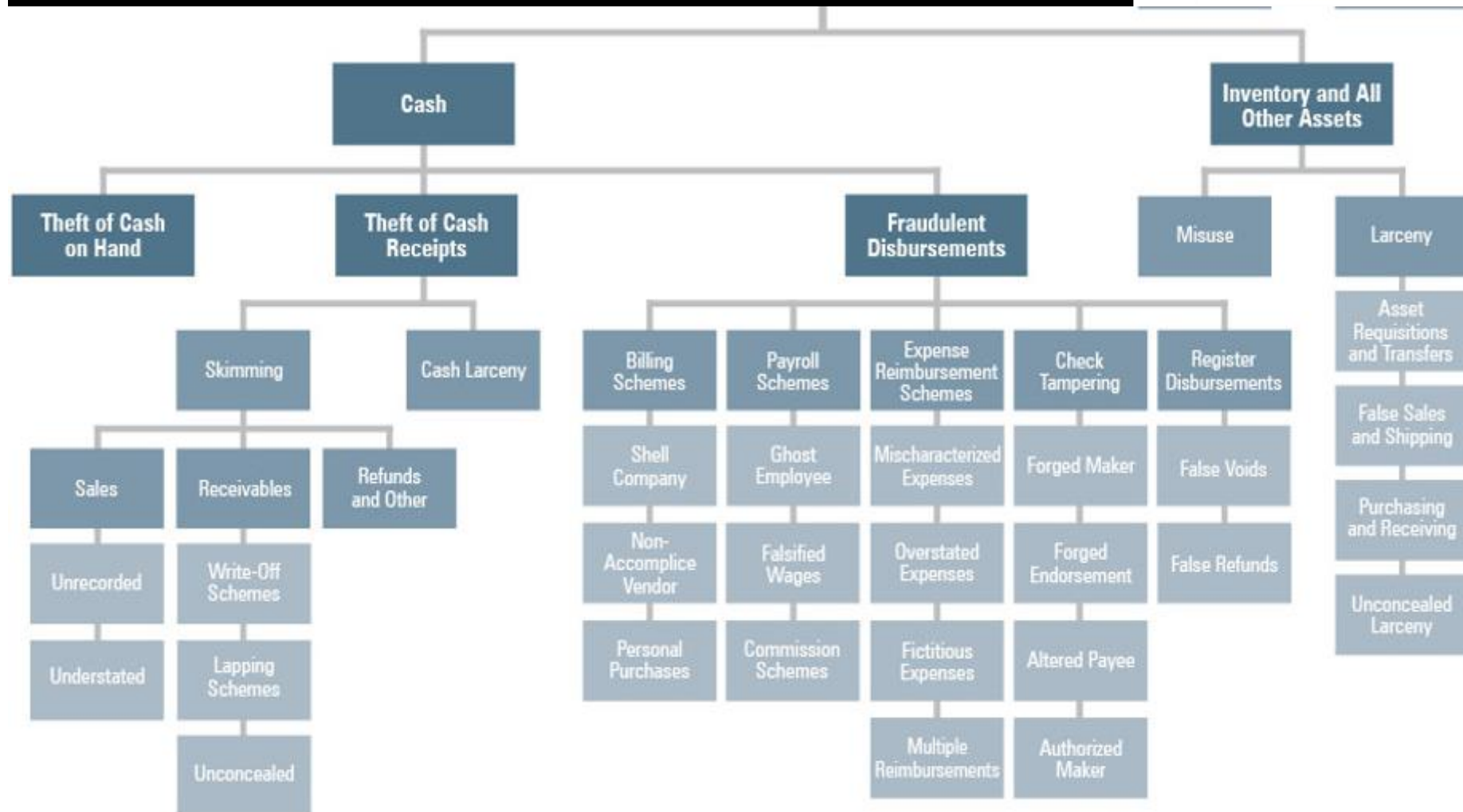
- 1. Asset Misappropriation schemes*
- 2. Controlling risks in:*
 - *Sales and accounts receivables*
 - *Cash disbursements*
 - *Purchasing and accounts payables*
 - *Payroll and HR*
 - *Physical assets*



Asset Misappropriation- a scheme that involves the theft or misuse of an organization's assets

- *Cash receipts schemes*
- *Inventory and all other assets schemes*

Asset Misappropriation Schemes





Asset Misappropriations

Stealing Receipts

Employee Alone

Customer Alone

**Collusion
(together)**

**Stealing Assets
on Hand**

Employee Alone

**2+ Employees
Together**

**Disbursement
Fraud**

**Employee
Alone**

Vendor Alone

**Collusion
(together)**

Controlling risks



- ❑ Organization are adopting the COSO risk management and control

frameworks to manage and control fraud risk.

- ❑ The three lines of defense framework play a key role in prevention and

detection of asset misappropriation fraud.

Sales and Accounts Receivables



Cash Receipts Schemes

Two types;

- a) *Skimming – Cash not being recorded in the books of the organization (off-book fraud)*

- b) *Larceny- perpetrated when cash has already been recorded in the books of the org*

Cash Larceny



How it is perpetrated:

- *Cash theft at cash collection points*
- *Transactions reversing.*
- *Register manipulation*
- *Altering cash counts*
- *Destroying cash register tapes.*
- *Deposit lapping.*
- *Deposit in transit.*

Detection of cash Larceny



- ❑ *Analysis of cash receipts*

- ❑ *Review and analysis of the cost of sales, cost of sales, returns*

- and allowances*

- ❑ *Analysis all journal entries made to cash accounts on a*

- periodic basis*

Controlling Cash Larceny



- ▶ *Enforcing Segregation of duties*
- ▶ *Assignment rotation and mandatory vacations*
- ▶ *Surprise cash counts and supervision*
- ▶ *Physical security of the cash-lockable drawers*

Fraud Risks in Cash Disbursement



How Cash reimbursement fraud is perpetrated.

- ” *Fictitious expenses*
- ” *Overstated expenses*
- ” *Multiple reimbursements*

Fraud Risks in Purchasing and Accounts Payable



Two types

1. Billing Schemes
2. Cheque Tampering Schemes

Fraud Risks in Purchasing and Accounts Payable



Billing Schemes

- “ Invoicing via shell companies*
- “ Invoicing via non-accomplice vendors*
- “ Personal purchases with company funds*

Fraud Risks in Purchasing and Accounts Payable



Prevention of Billing Schemes

- *Training purchasing personnel on ethical standards*
- *Sufficient compensation for purchasing staff to reduce the motive and rationalization of fraud*
- *Proper documentation-pre-numbered and controlled purchase requisitions; purchase orders receiving reports; cheques*
- *Proper approvals-for vendor additions; Local Chart of Authority with limits*
- *Segregation of duties-purchasing separate from payment function*
- *Invest in hotlines*
- *Enforce policies on competitive bidding*
- *Purchases and inventory levels should be reviewed for completeness and accuracy*
- *Credit card statements should be reviewed periodically for any irregularities*

Fraud Risks in Purchasing and Accounts Payable



Cheque Tampering Schemes

- “ *Forged maker*
- “ *Forged endorsements*
- “ *Altered payee*
- “ *Authorized maker*

Fraud Risks in Purchasing and Accounts Payable



Prevention of cheque Tampering Schemes

- ” *Banking controls*
- ” *Cheque preparation/ disbursement controls*
- ” *Cheque custody controls*
- ” *Physical tampering controls*

Fraud Risk in Payroll and HR



Payroll Schemes

” Ghost workers

” Commission Schemes

” Falsified hours and hourly schemes

Fraud Risk in Payroll and HR



Payroll schemes detection

- *Analysis of deductions from payroll*
- *Review of overtime for proper authorizations*
- *Random checks on customers to confirm sales for the commission paid*
- *Comparative analysis of commissions earned by salespersons*
- *Analysis of payee addresses and accounts*

Fraud Risk in Payroll and HR



Prevention of Payroll schemes

- ” Segregation duties in payroll duties*
- ” Monthly payroll reconciliation and management reviews.*
- ” Outsourcing of payroll processing to a contractor*

Fraud risk in Physical Assets



Inventory and physical assets schemes

- “ Theft of inventory, equipment and other assets*
- “ Misuse of company assets*
- “ Larceny*
- “ Asset requisition and transfers*
- “ Purchasing and receiving schemes*

Fraud risk in Physical Assets



How to detect physical assets fraud schemes

- ” Review of perpetual inventory records*
- ” Undertaking physical inventory counts*
- ” Analytical review of cost of sales, sales, purchases and purchase prices*