

# Forensics Audit Seminar Fraud in Financial Sector

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24<sup>th</sup> November 2017

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## *Fraud in the financial sector*

❖ *Mobile money fraud*

❖ *ATM fraud*

❖ *Loan related fraud*

# Financial Statement Fraud



***Fraud** is an intentional deception made for personal gain in order to obtain unauthorized benefits (money, property, etc.)*

- *A representation about a material fact, which is false*
- *Made intentionally, knowingly, or recklessly*
- *It is believed by the victim*
- *And acted upon by the victim*
- *To the victim's detriment*

# Financial Services Sector



€ - Currency

bitcoin

Perfect Money<sup>®</sup>  
Just perfect

PayPal™

IMPS™  
IMMEDIATE PAYMENT SERVICE



NETELLER<sup>®</sup>

WebMoney

Skrill  
moneybookers

Payza

# Mobile Money Fraud and Crime



Orange Money



- *Mobile money has disrupted the financial services sector in Kenya and the world.(deposit, withdrawal, money transfer, pay for goods and services, m-banking)*
- *Financial services institutions integrating their systems with mobile money services*



# Mobile Money Fraud and Crime



- A continuous growth in number of new mobile subscribers.
- Over 4.8bn mobile phone subscribers vs 1.5bn bank account holders in the world.
- Mobile money products have a greater impact than the internet on the lives of users

# Mobile Money Fraud and Crime



## *Mobile Money Fraud Types*

- *Illegal SIM swaps – Collusion and use of fake identity*
- *False Transactions-*
- *Identity theft*
- *Cyber attacks –Intrusion of mobile systems and interfaces*
- *Agent malpractices- withdrawals, split transactions*
- *Phishing-Social engineering to obtain personal information*

# Mobile Money Fraud and Crime



## *Mitigation of Mobile Money Fraud*

- *User is the first defence- promote fraud awareness through training*
- *Enforce system controls*
  - *User transaction and activity monitoring*
  - *Control access rights*
  - *Apply data protection mechanisms*
- *M-Banking, SMS alerts*
- *Enforce Segregation of duties*
- *Enable regulation; AML requirements, KYC*
- *Data analytics- Transaction monitoring*
- *Regular training of employees*



# ATM Card Fraud Schemes



# ATM Cards Fraud and Crime



- *Card Skimming*
- *Card Trapping/ jamming*
- *Transaction Reversal Fraud*
- *Cash Trapping*
- *Physical Attack*
- *Logical Attacks*



# ATM Cards Fraud and Crime



## *Mitigation of ATM Card Fraud*

- *Keep your PIN a secret*
- *Hide with you hand the PIN you type on the keyboard*
- *Keep cheque books safely away*
- *Check bank statements regularly*
- *Be careful when replying to emails requesting for personal information*
- *Do not let waiters walk away with your credit/debit cards*
- *When it sounds too good to be true, its too good to be true*

# Loans Fraud



*What is a loan fraud?*

*A scheme to obtain approval for loan facilities which would have otherwise be declined*

*False appraisals to obtain a loan advancement on improved terms.*

# Loans Fraud



## *Loan fraud types*

- ❑ *Forgery of documentation-* adapting documentation with intent to deceive lenders
- ❑ *Application Fraud-* An individual/ business entity knowingly supplies lenders with misleading information to support their loan application



# Loans Fraud



*Are lending institutions their own enemies?*

- *A big percentage of lending institutions do not report/ recognize corporate lending fraud. It is often 'treated'/ 'hidden' as impairment*
- *Common products treated as impairments; invoice financing, asset financing common with the SMEs sector*



# Loans Fraud



*Are lending institutions their own enemies?*

- Tough economy, legislation that led to lower interest rates on loans. Lending appetite for banks has been affected. This kind of climate may force honest customers into fraud in their quest to keep their businesses afloat.

# Loans Fraud



## *Indicators of loan Fraud*

- *Failure to disclose Credit bureau information*
- *Misrepresentation of financial information*
- *Use of proxy/ nominee to front loan applications*
- *Conflict of interests/ non-arms length loan transactions*
- *Missing pages*
- *Contains mathematical/ spelling errors*
- *Applications forms not signed*
- *No internet presence of borrowing entity*
- *Irregular fonts and formats*

# Loans Fraud



## Predatory Lending

*People have lost their homes and their investments because of predatory lenders, corrupt appraisers, mortgage brokers, and home improvement contractors who;*

- Sell properties for much more than they are worth, using false appraisals.*
- Encourage borrowers to lie about their income, expenses, or cash available for down payments in order to get a loan.*
- Knowingly lend more money than a borrower can afford to repay.*

# Loans Fraud



## *Mitigation of loan Fraud*

- *Review supporting documentation and report inconsistencies*
- *Run off-market transactions with caution.*
- *Enforce robust due diligence procedures*
- *Validate trading accounts for entities*
- *Report suspicious transaction to the FRC*

# Interactive Session



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