







2014 Global Fraud Survey Results

33% would offer more flexible product return policies

39% believe bribery and corruption is common

14% would change valuations/reserves assumptions

11% of CEOs are willing to misstate financial performance

11% would extend reporting periods

21% have been asked to pay a bribe

8% would backdate contracts



The Worlds Biggest Accounting Scandals





Toshiba \$1.2bn accounting scandal claims first scalps



Profits ramped up over a period of 6 years

Overstated profits by Yen 151.8bn (\$1.2bn)

Revenue Recognition!

Pressure to meet performance targets



Olympus scorched



Buried losses for over 20 years

Irregular payments for acquisitions (\$687 in advisory fees)

Profit smoothing!

Pressure to cover massive impairment losses



Fraud causes collapse of 12th largest privately held U.S. Company - SemGroup



Unauthorised energy trading caused \$3.2bn loss

Complex derivatives trading strategy with no oversight

Fraudulent trade deals!

Pressure to continue rapid growth despite lack of controls





Revenue Recognition

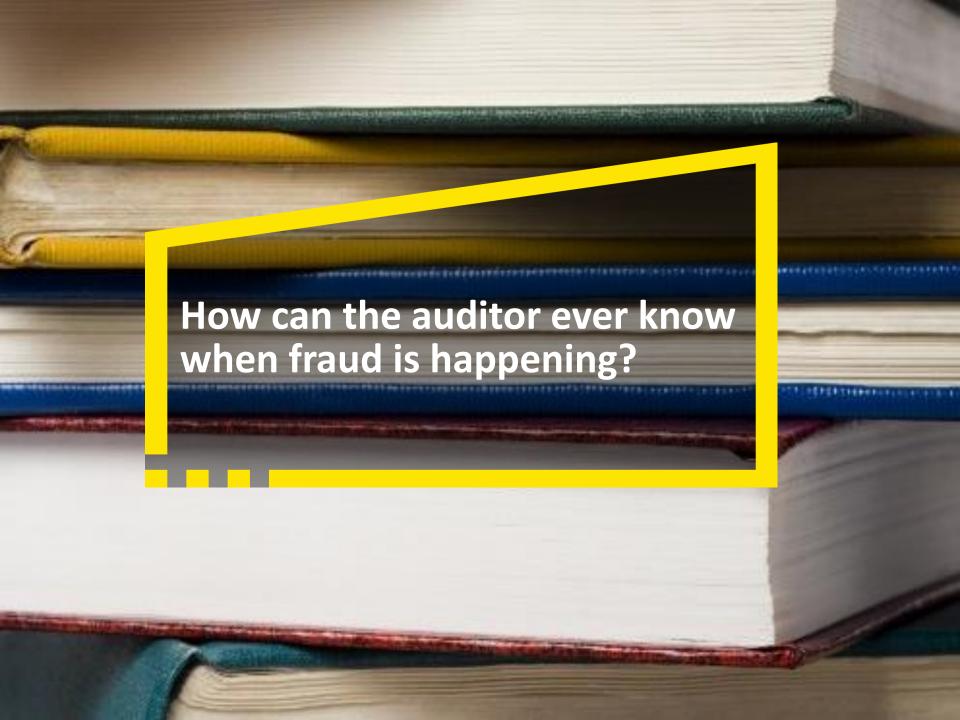
Percentage Completion calculation, particularly in construction contracts

Claims on contracts, particularly in construction contracts

Provisions

Cut off

Selling without title passing



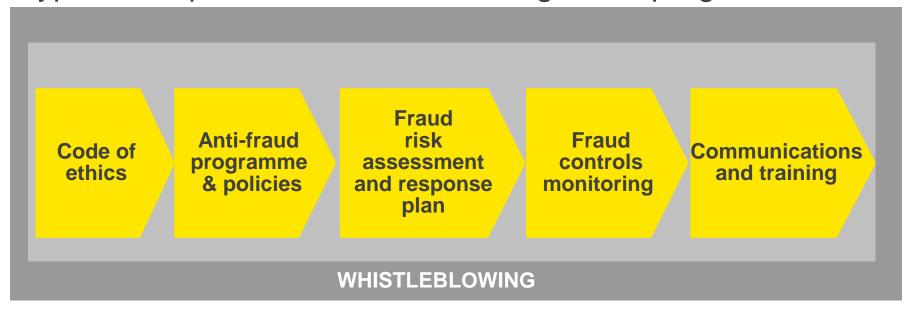


Responsibilities of management



Responsibility for preventing and detecting fraud lies with management (ISA 240)

Typical components of a fraud management programme are:





Responsibilities of the auditor



Obtain <u>reasonable assurance</u> that the financial statements are free from material misstatement

- Misstatements can arise from fraud or error
 - Distinction is whether the underlying action is intentional or unintentional
 - Unavoidable risk that some material misstatements may not be detected
 - Risk of not detecting a material misstatement resulting from fraud is higher than that from error, as fraud is concealed

Professional Scepticism



Fraud Risk Discussions





Client discussions	Internal discussions
 Assessment of risk of material misstatements due to fraud Management's process to mitigate risks Knowledge of actual and suspected frauds Management's communication protocols 	 Fraud risk factors Risks of material misstatement Results of client discussions Understanding of client's fraud management programs Prior year ELC testing Planned audit approach to address the risks identified



Fraud Risk Discussions





Client discussions	Internal discussions
Management from a variety of functions - not just finance - as well as internal audit	The entire team, led by the engagement partner



Evaluation of the entity's controls in respect of fraud risks

What evidence do you have on file that the design and implementation of controls in respect of fraud risks have been evaluated?

- Example: Whistleblowing what are our audit procedures?
 - Review the policy
 - Test the reporting lines
 - Assess the process for investigating whistleblowing reports
 - Review the log of reports and investigation outcomes
 - Review the information provided to the audit committee
 - Conclude on design and implementation of whistleblowing as an internal control



Journal entry testing



ISA 240 requires that journal entry testing is performed to respond to the risk of management override

- External regulatory reviews identified:
 - Journal entry testing was not always performed in response to fraud risks identified
 - Rationale for sample sizes was not always clear
 - Journals discussed with management without corroboration
 - Data Analytics:
 - Use of automated tools to test journal entries was limited
 - Where automated tools identified large numbers of journals with the set risk criteria, the rationale for only testing a sample of these was not well documented

