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Fraud: The overlooked competitor



- ❖ Definition of Fraud
- ❖ Importance of the discussion
- ❖ Latest Statistics and Surveys on Frauds
- ❖ Current Cases of Fraud in our Country
- ❖ Discussion on Emerging Trends on Fraud
- ❖ Discussion in relation to Accountancy
- ❖ Why is it difficult to Identify fraud
- ❖ Mitigation frameworks and Legislation guidance
- ❖ Question and Answer Session

Fraud Defined by D. Cressey

The Fraud Triangle:

A framework for spotting high-risk fraud situations

Pressure

Financial or emotional force
pushing towards fraud

FRAUD

Opportunity

Ability to execute plan
without being caught

Rationalization

Personal justification of
dishonest actions

THE FRAUD TRIANGLE THEORY

Early studies Findings on Fraud



Study in Italy by Lombroso emphasized on Physical attributes

Still applicable today especially by the Millennial-80% want to study procurement



Fraud in Itself



Intentional and there has to be an element of Unlawful gain

Emerging Studies have pointed towards Capability.....still front that certain Cultural attributes and behavior leads to fraud..

This helps in realignment of Internal Controls and mapping of working Controls as fraud is a business competitor

Types of Frauds



❖ *Occupational Fraud*

❖ *Asset Misappropriation*

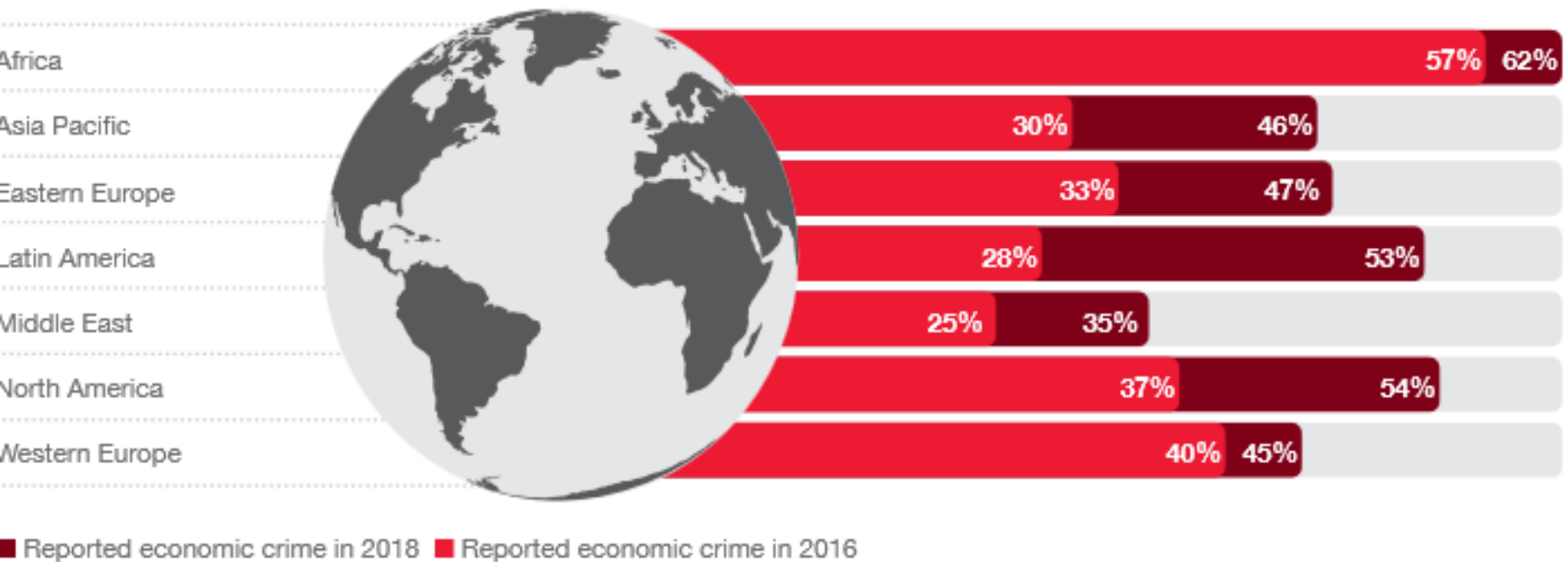
❖ *Financial Statement Fraud*

❖ *Illegal Gratuity Corruption and Bribery Schemes*

Latest Statistics on Fraud-Global



The reported rate of economic crime has increased across all territories



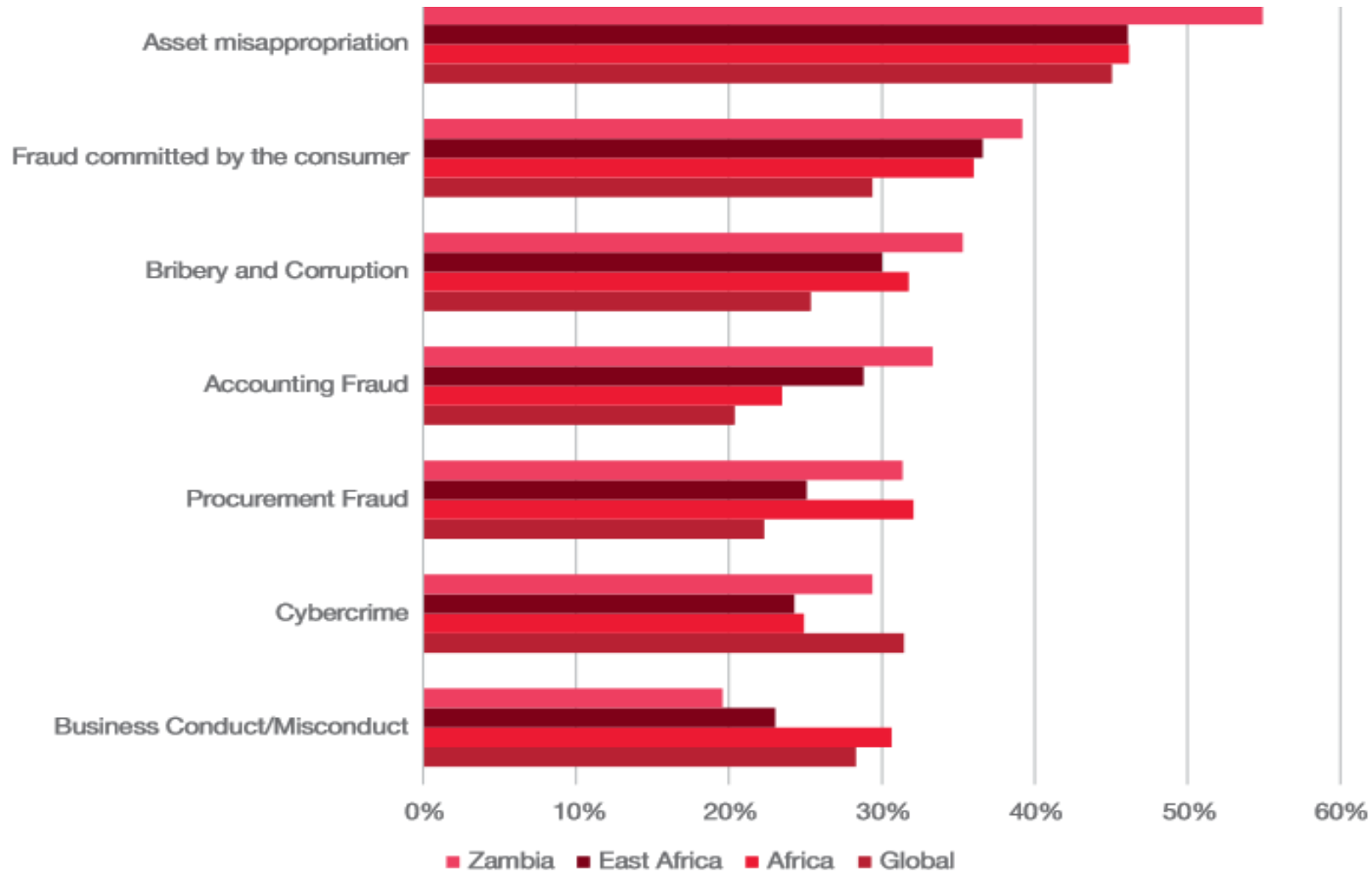
Analysis of the Global Statistics



Prevalence of Fraud in Africa is high globally because of :

- ❖ *Gaps between the Poor and the Rich*
- ❖ *Heavy Development oriented budgets*
- ❖ *Inadequate governance structures: Incapable Guardian; Opportunity and Rationalization*
- ❖ *Poor technology*
- ❖ *Growth oriented Economies*

Latest Statistics by Fraud Type



Analysis of Asset types



Asset Misappropriation remains the most common form of fraud globally:

- ❖ *Data has become the biggest competitive advantage for any organization*
- ❖ *Consumer Fraud is the new trend on Misappropriation globally*
- ❖ *Cyber remains a threat in the Digital World*
- ❖ *Ghost workers- Addition; Omissions and corruption of data set*
- ❖ *Increase in Procurement Fraud: Amendment of terms ; removal of papers from Bid Document; Fraud perpetuated through Legal Contracts; Vague Bid bonds*

Kenyan Context-Analysis



- ❖ 75pc of Kenyan managers have experienced fraud in the last 2 years:
PwC Survey
- ❖ *Middle Management* recorded the highest number of fraud perpetrated by Internal Staff
- ❖ Asset Misappropriation – Cyber Attacks and Procurement remain relatively high
- ❖ Emerging Fraud by the Consumers recorded the highest level with majority posing as Illiterate: *Maasai and the gold piece; lottery wins*
- ❖ Corruption and Bribery
- ❖ Financial Statement Fraud

Emerging Fraud Trends...ICT



All organizations in one way or another have embraced Technology as an enabler of Business

- ❖ *Use of USSD CODES *333#*
- ❖ *Web enabled Business*
- ❖ *Use of Mobile Phones Apps*
- ❖ *Bloggers(Number ten will shock you)*
- ❖ *Use of Internet Banking*

Emerging Fraud Trends...ICT



- ❖ *Transaction Levels: Authorization; roles and Rights*
- ❖ *Social Engineering Schemes have evolved- (Mpesa Pin Reactivation)*
- ❖ *Networks- Wireless; Bluetooth and Use of Cables*
- ❖ *Reason why Password Crackers are easily used....Updates on your Machine*
- ❖ *Root and Administrator : Default Settings on your Machines and where to get them*
- ❖ *Physical Access: use of badges and Mapping to Employee specific machine IP*

Why Asset Misappropriation...



- ❖ *Accessibility to the Asset*
- ❖ *You do not need force*
- ❖ *Victim takes time to understand how to take an Illegal advantage*
- ❖ *Has limited control- Supermarkets; Manufacturing; Insurance; Banks*
- ❖ *Trend will always show employees with Administrative or Super user skills*
- ❖ *Incapable guardian takes responsibility.*

Is Customer your Friend or foe



Is Customer your Friend or foe



- ❖ *Contrary to the Previous survey findings; in 2017 and 2018 there has been increase in red-flags related to External Clients*
- ❖ *This is largely due to an informed and Tech Savvy population*
- ❖ *Increased opening of Corporate Systems to increase efficiency*
- ❖ *Too many incompatible systems and familiarity of the organization to the Technological Advances*
- ❖ *Increased changing lifestyles and Societal demands especially in the youthful population*

What is the way forward...



Control Framework based on COSO recommendations



Way forward Continued...



- ❖ *Know Your Customer Keenly-Related to AML*
- ❖ *Make Risk Profiling your daily duty*
- ❖ *Controls like human beings they die....Invest in continuous reviews*
- ❖ *Increased levels of background checks and screening*
- ❖ *Due diligence*
- ❖ *Your password and Information- Limit access at least make it hard to access*
- ❖ *Jitambue- Increase your authentication features*

Fraud detection and Prosecution difficulties



- ❖ *Tip remains the highest mode of fraud detection at 57% globally*
- ❖ *External and Internal Audits remain the least modes at 9% and 12% respectively*
- ❖ *Fraud involves collusion*
- ❖ *Proof of Intend is a nightmare*
- ❖ *Investigation in a computer environment is challenging and basic rules have to be met*
- ❖ *Capability in interviewing; sourcing of information and thorough audit*
- ❖ *The Prosecution Process challenges*

Kenyan Context-Analysis

