



Inaugural Branch Summit

Central Rift

July 18 – 20, 2018

FRAUD RISK MANAGEMENT

**Presentation by
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Agenda



1. The Headlines
2. What is Fraud
3. The Fraud Triangle
4. Fraud Risk Management
5. FRM Components
6. Interactive Session

Cyber attacks cost Kenya Sh20bn in 2017

By **Anita Nkatha** For Citizen Digital

🕒 Updated on: 1923, April 11, 2018 (EAT).

NYS hit by fresh Sh10 billion scandal

May. 12, 2018, 6:00 pm | By PAUL ILADO

CBK probes 78 Imperial Bank accounts for fraud

FRIDAY, MAY 11, 2018 10:29

Internet fraud costs Kenyan banks Sh3bn

Business NATIONAL NEWS

WEDNESDAY MAY 4 2011

Sweet, bitter tale of Mumias

Ten years of mismanagement, plunder of resources and tax evasion push Kenya's largest sugar producer to it's deathbed

People Daily • July 13, 2018

🔥 2,524 📖 4 minutes read

ICPAK blames directors for rising cases of fraud

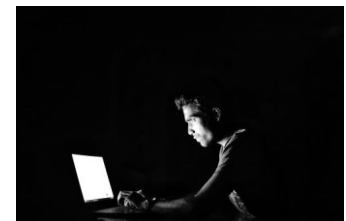
Dec. 09, 2015, 7:30 am | By RICHARD MUNGAI

What is Fraud



Any intentional or deliberate act to deprive another of property or money by guile, deception, or other unfair means. - *ACFE*

Fraud involves using deception to dishonestly make a personal gain for oneself and/or create a loss for another - *CIMA*.



Most Common Fraud



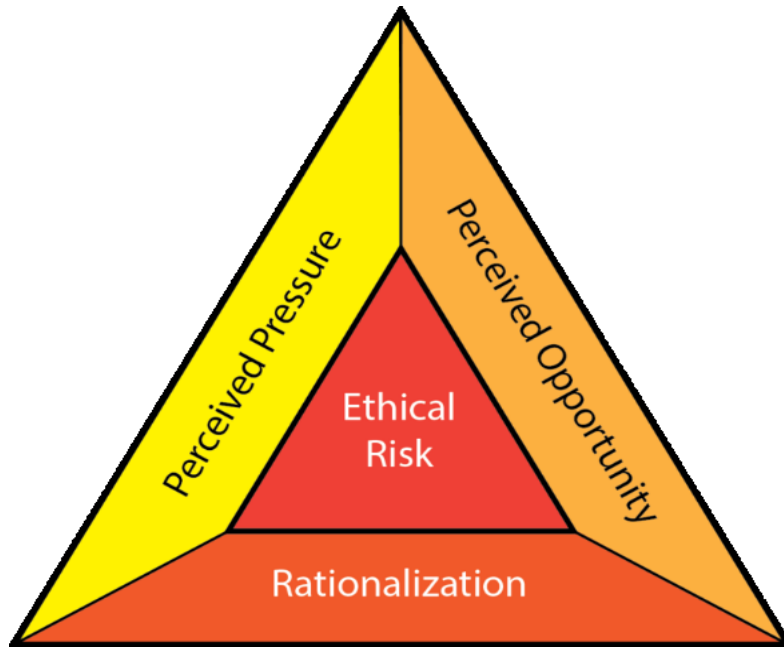
- Asset misappropriation
- Bribery and Corruption
- Consumer fraud
- Cybercrime
- Procurement fraud
- Business misconduct
- Financial Statements fraud

Why do people commit Fraud?



- Motivation of potential offenders
- Conditions under which people can rationalise their prospective crimes away
- Opportunities to commit crime(s)
- Perceived suitability of targets for fraud
- Technical ability of the fraudster
- Expected and actual risk of discovery
- Expectations of consequences of discovery
- Actual consequences of discovery.

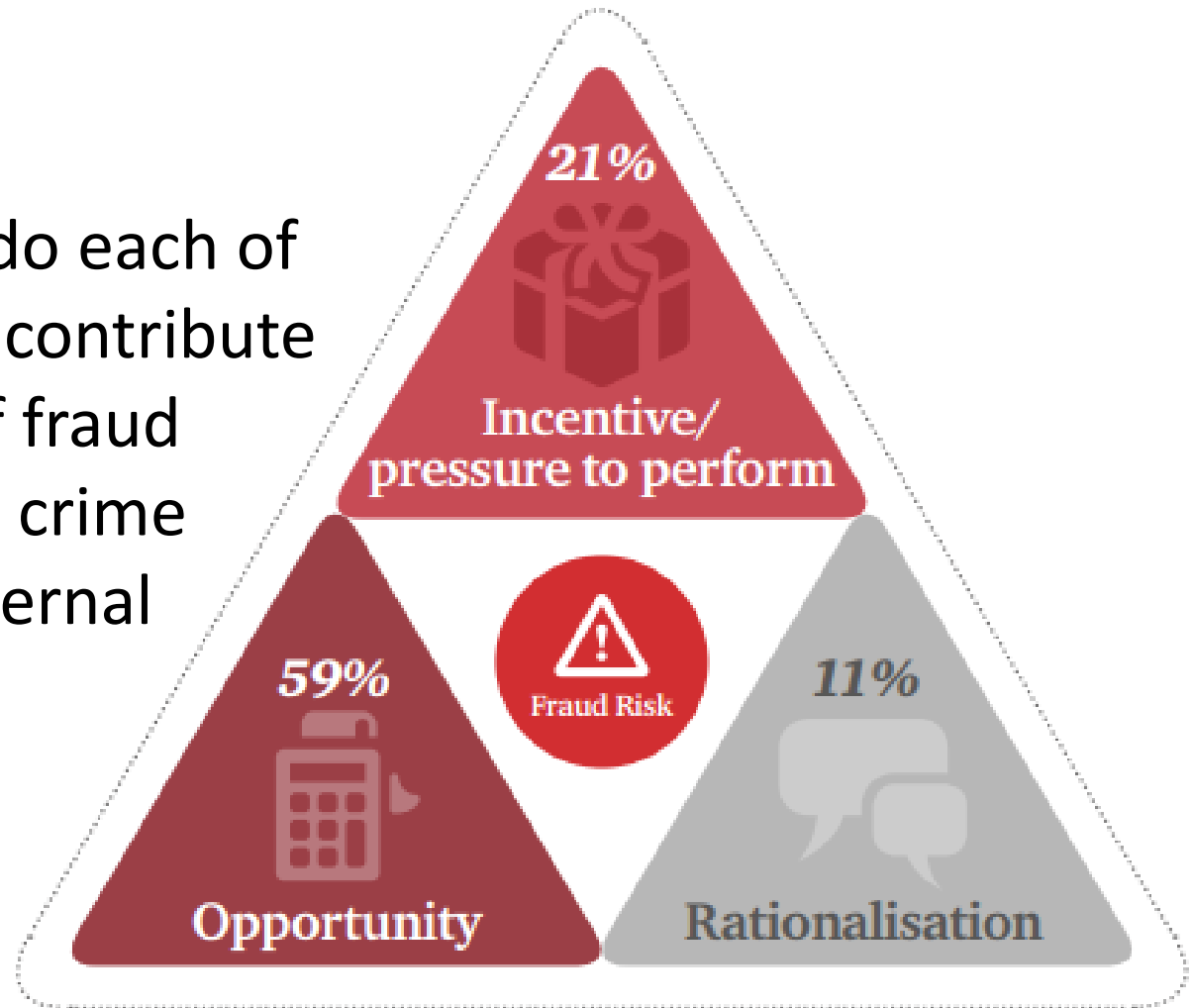
Fraud Triangle



- **Pressure (Motive)** – the need for committing fraud (e.g. need for money)
- **Rationalization** – the mindset of the fraudster that justifies them to commit fraud;
- **Opportunity** – the situation that enables fraud to occur

Fraud Triangle

“To what extent do each of the three factors contribute to the incident of fraud and/or economic crime committed by internal actors?”



Source: Global Economic Crime and Fraud Survey 2018

Why Manage Fraud?



- Organisations may be losing up to 5% of annual turnover as a result of fraud
- Corruption estimated to cost the global economy about \$4 trillion annually
- Only a small percentage of losses from fraud are recovered by organisations
- A high percentage of frauds (value) are committed by senior management and executives
- Fraud losses are not restricted to a particular sector or country
- Prevalence of fraud is increasing in emerging markets.

The Statistics



2,690

real cases of
occupational fraud

from

125 countries

in

23 industry
categories

\$7 BILLION+
IN TOTAL LOSSES

\$130,000
MEDIAN LOSS PER CASE

22%
OF CASES CAUSED
LOSSES OF
\$1 MILLION+



Median duration
of a fraud scheme



MONTHS

CORRUPTION

was the most common scheme
in every global region

Source: ACFE Report to the Nations 2018

The Statistics



ASSET MISAPPROPRIATION SCHEMES

are the most common and least costly

\$114,000
median loss



89%
of cases



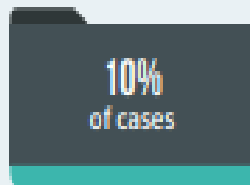
\$800,000
median loss



FINANCIAL STATEMENT FRAUD SCHEMES

are the least common
and most costly

10%
of cases



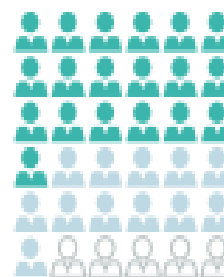
TIPS are by far the most common
initial detection method



EMPLOYEES

provide over half
of tips, and nearly
1/3 come from

OUTSIDE PARTIES

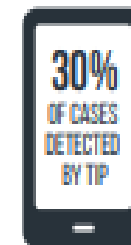


ORGANIZATIONS WITH HOTLINES

detect fraud by tips more often



HOTLINES



NO HOTLINES

Source: ACFE Report to the Nations 2018

The Statistics



INTERNAL CONTROL WEAKNESSES
WERE RESPONSIBLE FOR NEARLY
HALF OF FRAUDS



ALL 18 ANTI-FRAUD CONTROLS
ANALYZED WERE ASSOCIATED
WITH **LOWER FRAUD LOSSES**
AND **QUICKER DETECTION**



Owners/executives
accounted for
a small percentage
of cases



but caused a
median loss of
\$850,000



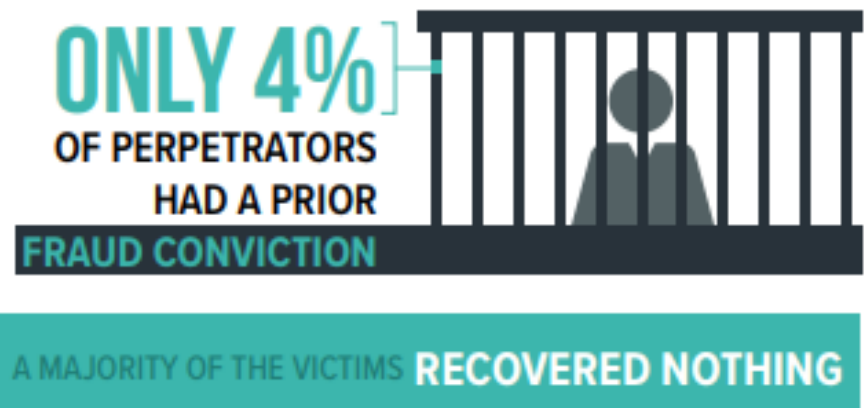
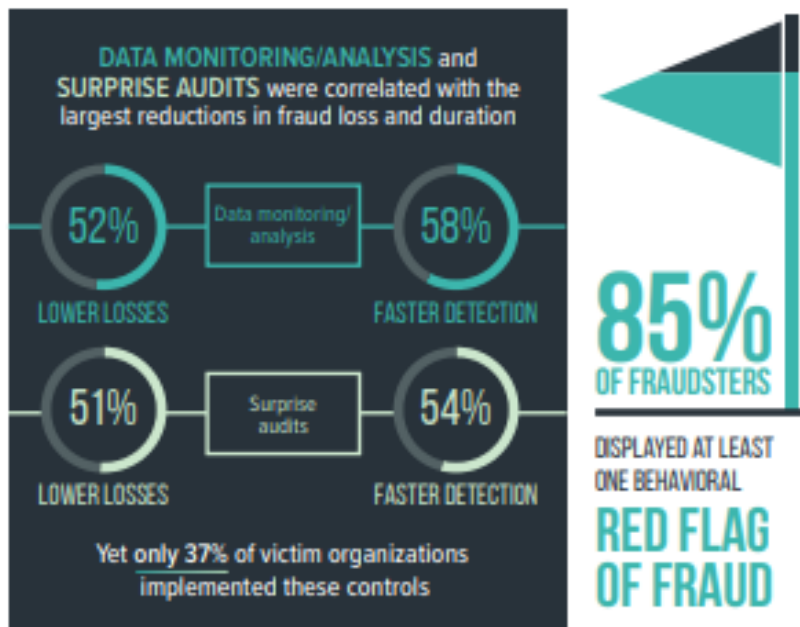
LOSSES CAUSED BY MEN
WERE 75% LARGER
than losses caused by women



MEDIAN LOSSES
ARE FAR GREATER
when fraudsters
collude



The Statistics



Source: ACFE Report to the Nations 2018



Fraud Risk Management (“FRM”) is an ongoing process that provides an organisation with the tools to manage fraud risk in a manner **consistent** with the entity's needs as well as regulatory requirements - *KPMG*

FRM Components



Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO)

- An integral component of corporate governance and the internal control environment
- The organization establishes and communicates a Fraud Risk Management Program that demonstrates:
 - Expectations of the board of directors and senior management and
 - Their commitment to high integrity and ethical values regarding managing fraud risk.

- A dynamic and iterative process of identifying and assessing fraud risks relevant to the organization.
- Fraud risk assessments:
 - Identify specific fraud schemes and risks,
 - Assess their likelihood and significance,
 - Evaluate existing fraud control activities,
 - Recommend actions to mitigate residual fraud risks.

Fraud Control Activities



- Action established through policies and procedures that helps ensure that management's directives to mitigate fraud risks are carried out
- The organization selects, develops, and deploys preventive and detective fraud control activities to mitigate the risk of fraud events occurring or not being detected in a timely manner.

Investigation and Corrective Action



- Developing and implementing a system for prompt, competent, and confidential review, investigation of actual or suspected fraud.
- Resolution of instances of non-compliance and allegations involving fraud and misconduct.



FRM Monitoring Activities



- Ensure that each of the five principles of FRM is present and functioning as designed,
- Identify needed changes in a timely manner.
 - The organization selects, develops, and performs ongoing evaluations
 - Communicate FRM program deficiencies
 - Taking corrective action

- The Global Economic Crime & Fraud Survey 2018 identifies for steps to fight fraud:
 - Recognise fraud when you see it
 - Take a dynamic approach
 - Harness the protective power of technology
 - Invest in people, not just machines

“Whoever is detected in a shameful fraud is ever after not believed even if they speak the truth.” *Phaedrus*

Interactive session