

# Fraud Analysis: A new paradigm for Forensic Accountants and Auditors

Presentation by:

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# What is 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; and
  - ✓ To the victim's detriment.

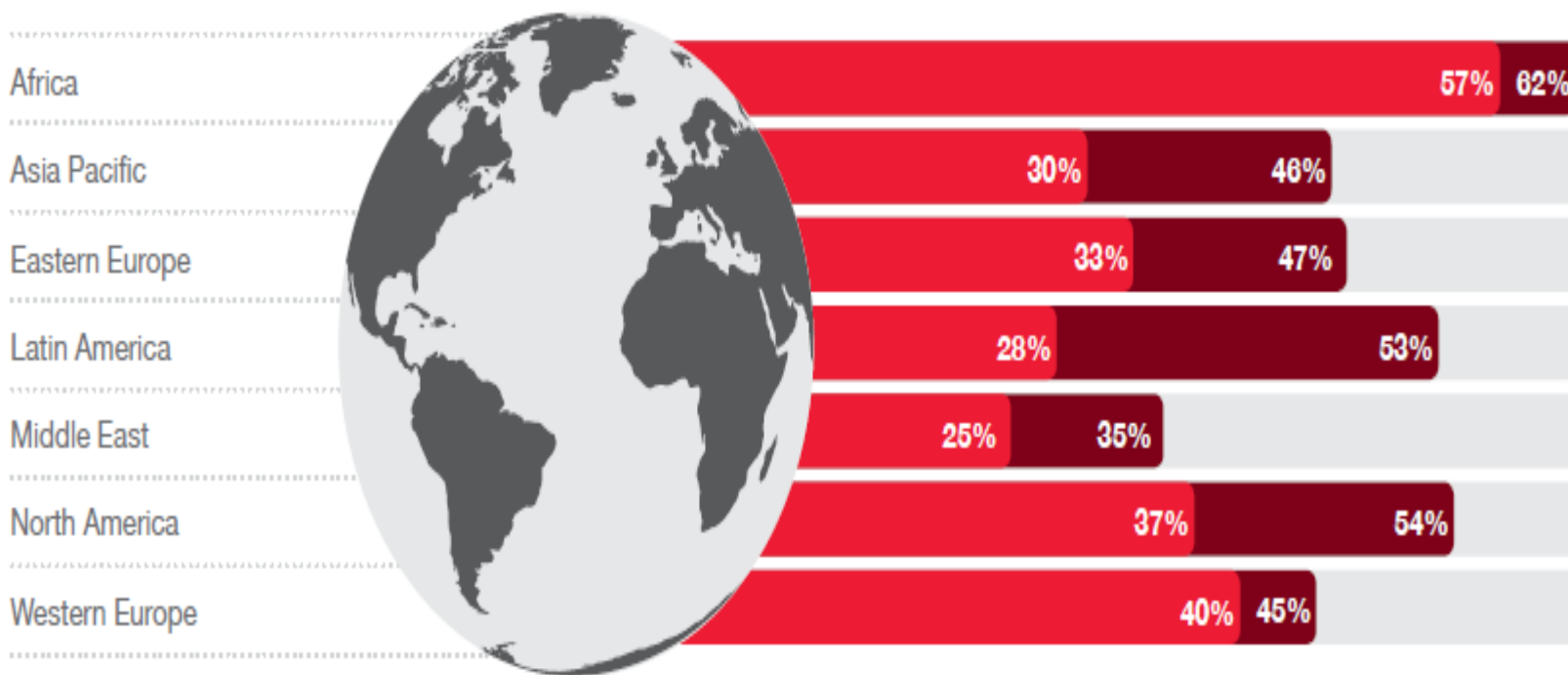
# Global Economic Crime Survey (GECS) 2018 - video



# Economic Crime – Painting the picture



The reported rate of economic crime has increased across all territories

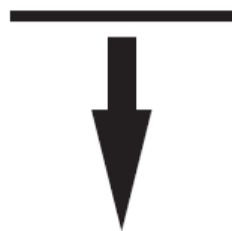
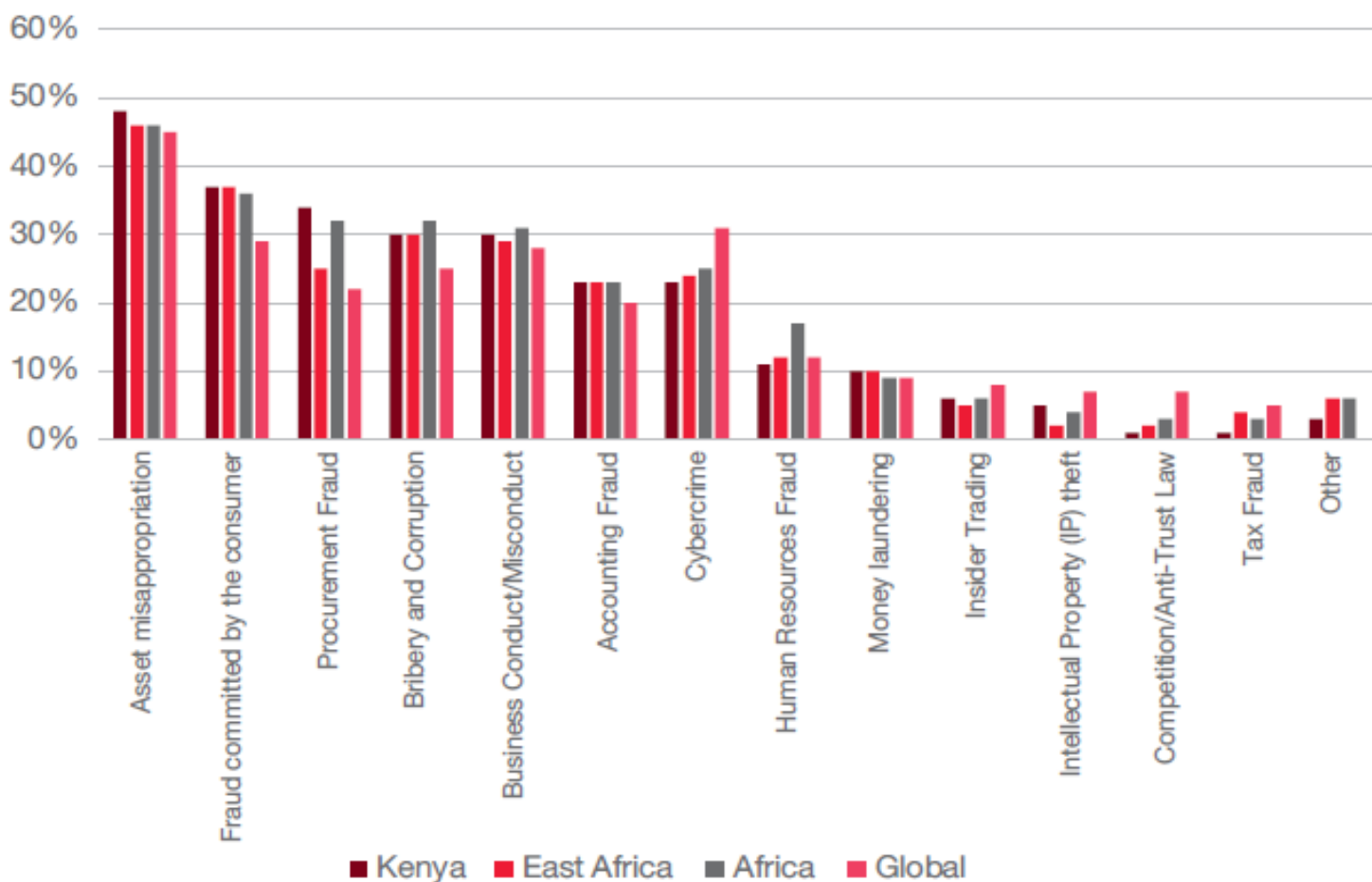


■ Reported economic crime in 2018 ■ Reported economic crime in 2016

# Economic Crime – Painting the picture



Incidences of Economic crime



Despite falling by 25%,  
Asset Misappropriation  
continues to be the  
leading form of  
economic crime globally

# Economic Crime – Profile of a fraudster



# Economic Crime – Profile of a fraudster



- Between the ages of 36 and 55.
- Predominantly male with the proportion of women on the rise.
- A threat from within that holds an executive or director level position.
- Employed in the organization for at least six years.
- Described as autocratic and most likely to be regarded as friendly as not esteemed, describing themselves as well-respected in their organization.
- Likely to have colluded with others.
- Motivated by personal gain, greed and the sense of 'because I can'.



# Classification of Fraud

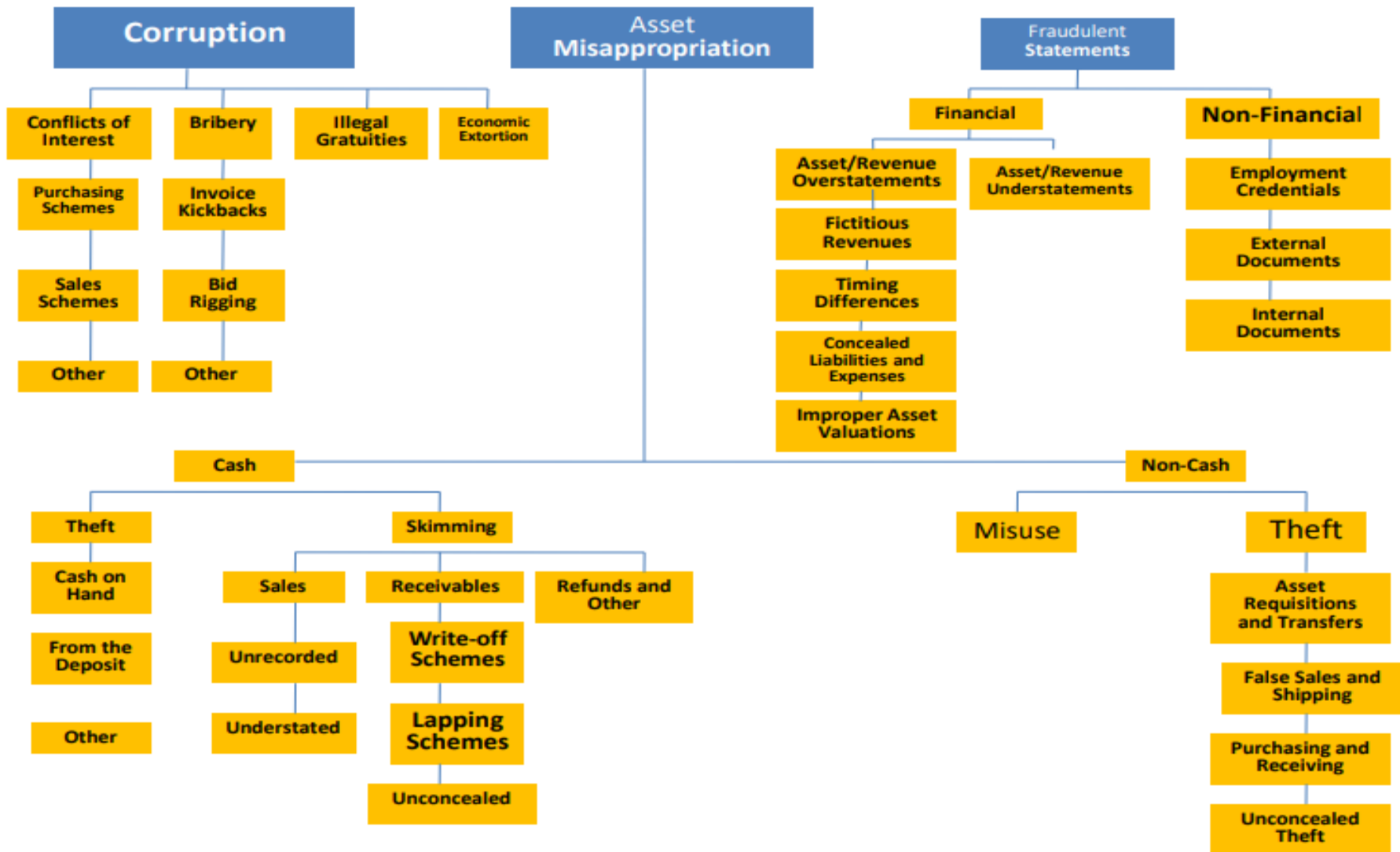


# Classification of Fraud

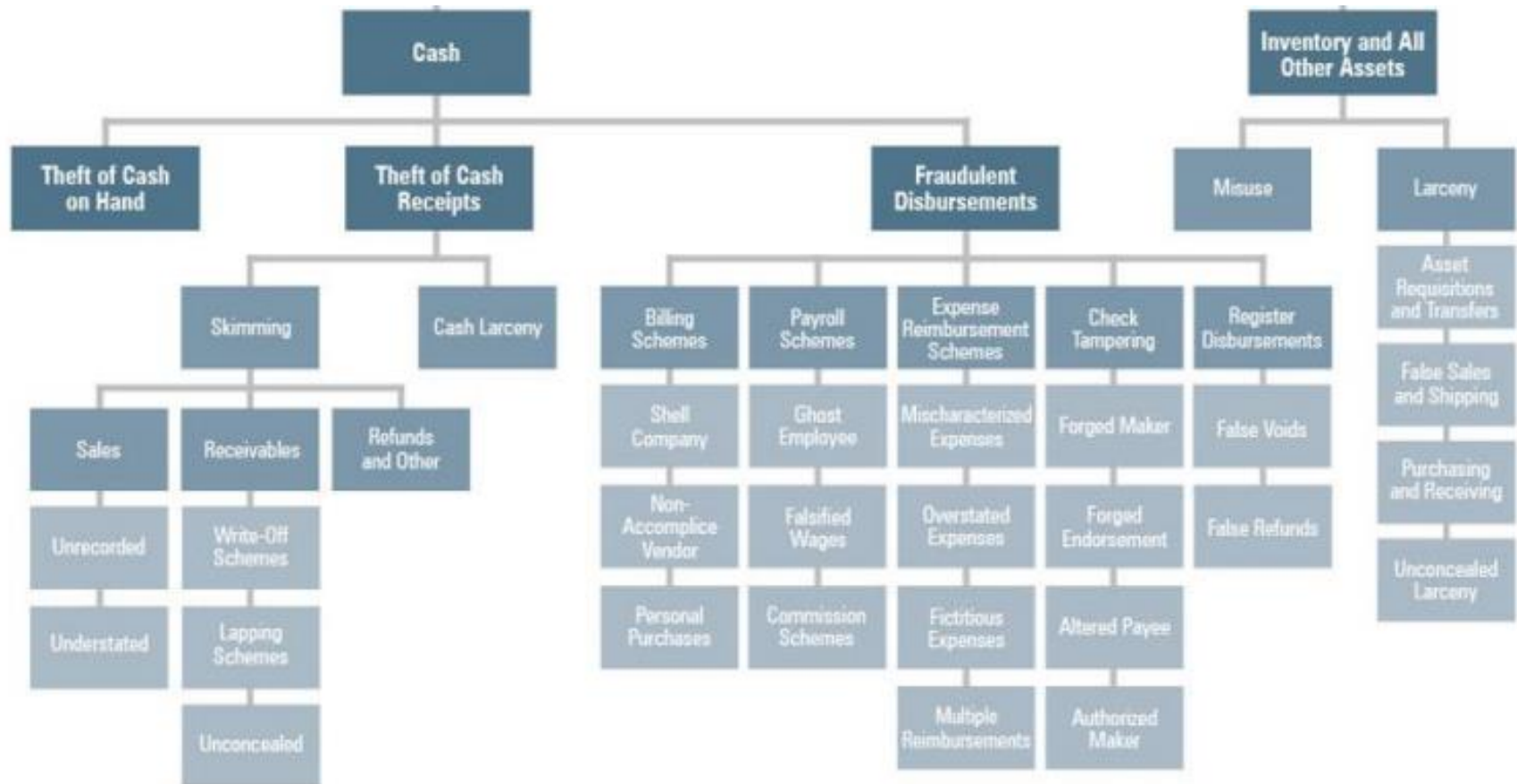


- Common classifications of fraud:
  - ✓ **Corruption** – an employee **ABUSES** his/her position of trust in order to achieve personal gain
  - ✓ **Asset Misappropriation** - A scheme that happens when people who are entrusted to manage the assets of an organization steal from it.
  - ✓ **Fraudulent financial statements**

# Classification of Fraud



# Classification of Fraud – Asset Misappropriation





# Classification of Fraud – Asset Misappropriation

- **Asset Misappropriation** – A scheme that happens when people who are entrusted to manage the assets of an organization steal from it.
- It involves third parties or employees who abuse their position to steal from it through fraudulent activity.

**INSIDER FRAUD**

# Classification of Fraud – Skimming



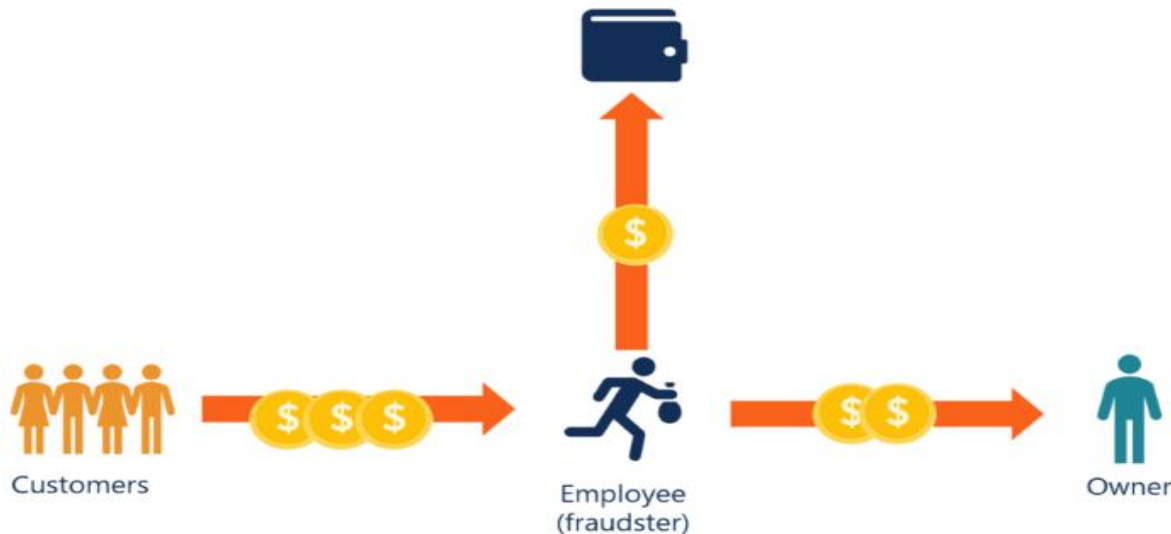
1. **Cash Receipt Schemes: Skimming / defalcation**
  - Skimming is the most common fraud and occurs most common form of occupational fraud and occurs most frequently in the retail industry during the point of sale when an employee first receives cash from a customer.

# Classification of Fraud – Skimming (cont.)



## 1. Cash Receipt Schemes: Skimming

- Skimming happens when cash has not been recorded in the books of the organization. (off book fraud).



# Classification of Fraud – Skimming (cont.)



## How does it happen?

- Register manipulation - Ring a no sale and open cash drawer then steal the money
- Skimming during non business hours without management's knowledge
- Understated sales - Lower amount is posted than what is actually received
- Cheque for currency substitution - Swap cheques for cash
- Lapping involves crediting of one account through abstraction of money from another account ( i.e. robbing John to pay Peter)

# Classification of Fraud – Skimming (cont.)



## How do you detect this?

- Analytical procedures such as vertical and horizontal analysis of sales accounts and ratio analysis
- Review of all journal entries in cash and inventory accounts
- Examination of source documents such as bank deposit slips; checking for dates of customer payments with the dates customer accounts are posted
- Confirmation of customer accounts( large ones)



# Classification of Fraud – ATM Skimming (cont.)



Criminals tend to attach skimming devices either late at night or early in the morning, and during periods of low traffic.

Skimming devices are usually attached for a few hours only.

Criminals install equipment on at least 2 regions of an ATM to steal both the ATM card number and the PIN.

Criminals then sit nearby receiving the information transmitted wirelessly via the devices (installed on the ATM).

# Classification of Fraud – Shimming (cont.)



**Out:** Thieves "skimming" your ATM card and stealing your details from the magnetic strip.

**In:** Bad actors "shimming" the embedded smart chip in your ATM card.

Fraudsters are using devices called "shimmers" in card slots at ATMs to snag your card data from the chip. Thieves can use this information to create a clone of your card and rack up charges.

# Classification of Fraud – Asset Misappropriation



## 2. Fraudulent disbursements: Payroll / Pension schemes

- **Ghost employees.** The perpetrator adds a non staff to the payroll of the organization; the perpetrator is paid
- **Commission schemes.** Falsify the amount of sales made or increase the commission rate so as to receive higher commission
- **Falsified hours and salary schemes.** Overstating hours worked and forging the supervisor's signature or colludes with him or her or increasing the daily rate for salaried persons.

# Classification of Fraud – Asset Misappropriation



## 2. Payroll fraud detection techniques

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

# Classification of Fraud – Asset Misappropriation



3. **Fraudulent disbursements: Cheque tampering schemes**
- **Forged maker** - This happens when an employee misappropriates a cheque and fraudulently affixes the signature of an authorized maker thereon.
  - **Forged endorsements** - This happens when an employee intercepts a company cheque intended to pay a third party and converts the cheque by endorsing it in the third party's name / his own names a second endorser.

# Classification of Fraud – Asset Misappropriation



3. **Fraudulent disbursements: Cheque tampering schemes**
- **Altered payee** – this happens when an employee intercepts a company cheques intended to pay a third party and alters the payee designation so that the cheque can be converted by the employee or an accomplice.
  - **Authorized maker** - This happens when an employee with signature authority on a company account writes fraudulent cheques for his/her own benefit and signs his/her own name as the maker.

# Classification of Fraud – Asset Misappropriation



## 3. Fraudulent disbursements: Cheque tampering schemes detection

- Bank reconciliations
- Bank confirmations
- Cheques payable to employees
- Differences between payee on cheques and cheque register
- Unusual payees such as cash payees or unapproved vendors



# Classification of Fraud – Asset Misappropriation



## 3. Fraudulent disbursements: Cheque tampering schemes detection

- Cheque disbursement controls
  - Segregation of duties
  - Review of vendor information changes
  - Bank reconciliations and review by senior management
- Bank assisted controls
  - Set limits for cheques drawn
  - Providing bank with list of cheques and amounts



# Classification of Fraud – Asset Misappropriation



- ### 3. Fraudulent disbursements: Cheque tampering schemes detection
- Physical tampering controls
    - Signature line void safety band- the word VOID appears on the cheque when photocopied
  - Cheque theft controls
    - Safe custody of unused cheques
    - Securely store cancelled cheques
    - Report stolen or lost cheques immediately

# Financial Crime - Cybercrime



1. **Identity Theft** – Hackers and scammers may use fake emails to trick victims into giving up passwords and account information, or they may use specialized programs called key loggers to track what a user types when logging into bank or credit accounts.

**\*Phishing\***

# Financial Crime - Cybercrime



- 2. Advance Fee Fraud** - These frauds involve conning victims out of money by promising them an eventual payoff.
- The scammer emails his victim with news of some financial windfall, often represented as the wealth of a distant relative or the remnants of some other illicit fortune.
  - All the victim needs to do to claim this wealth is provide some identifying information and pay a few incidental expenses.

# Financial Crime - Cybercrime



3. **Piracy** - the copying and distribution of programs, movies, music or other intellectual property without permission.
4. **SIM SWAP Fraud** – Illegal SIM Swap which results in the fraudulent owner taking mobile money loans or even worse
6. **Mobile Money Fraud** – Through sim swap, identity theft, phishing, mobile banking etc.

# The Role of the Forensic auditor



*Don't get blindsided by your blind Spots.  
"If you don't know it's there, you don't look for it.  
If you don't look for it, you don't find it. If you  
don't find it, you can't make the business case to  
look for it."*

# The Role of the Forensic auditor



## *Preventing Fraud: The three lines of defence*

### *What to do then?*

*3 lines of defence*  
– Governance,  
Oversight &  
Operations

They only be  
strengthened by  
technology and  
not replaced by  
it.



# The Role of the Forensic auditor



- In order to detect and manage fraud dynamically, *all the facets of fraud detection mechanisms must be carefully examined.*
- **Culture** - Look at all facets of the fraud triangle (Pressure – Openness, Opportunity – Controls, Rationalization – Culture)
- How often does your organization conduct **Fraud Risk Assessments**?

Use Technology to detect and prevent fraud

- Digital Evidence Recovery (imaging, e-discovery, email forensics)
- Data Analytics (use of tools such as ACL, IDEA)
- Continuous Monitoring (use of tools such as tableau and Qlikview to create a dashboard to illustrate trends in your data on a real time basis.)



# Questions?