

*Anatomy of an Internal Fraud Investigation:*  
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# OUTLINE



1. The investigation lifecycle – from discovery to the internal investigation
2. Investigation interviewing techniques
3. Understanding the mindset of a fraudster
4. Identifying best practices and risks associated with each step in the investigation

# What is investigation



**Investigation** is performed to prove a certain fact, It covers an examination of the accounts but also covers an inquiry into other matters that are connected with the purpose for which it is undertaken,

**Forensic Accounting** is the use of professional accounting skill in matters involving potential or actual civil or criminal litigation, while investigations can be conducted by either accountants or non-accountants. Forensic accounting work can only be performed by accountants.

**Auditing** is conducted to verify the extent of truthfulness and fairness of the financial records of an entity. It includes only an examination of the accounts of a business.

# The whys of investigation



There are many reasons why organizations choose to conduct investigations.

A properly executed investigation can address a number of organizational objectives , including

1. Identifying improper conduct
2. Identifying the person responsible for the improper conduct
3. Sending a message through out the organization that fraud will not be tolerated
4. Strengthening internal control weaknesses
5. Determine the extent of potential liabilities or losses that might exist
6. Helping facilitate recovery of losses
7. Stopping future losses
8. Mitigating other potential consequences



# What does investigation entail?



When conducting an investigation, one has to assume that litigation will follow, act on predication, approach cases from two perspectives , move from the general to the specific and use different investigation approaches

This is what is written in all books, but to be honest there is no formulae for conducting investigations, the rules can change anytime, the end game is to achieve your objectives, how you go about it doesn't matters.

You might follow the latter but even fraudster are attending classes to learn how investigations are conducted.



# The investigation lifecycle



The investigation process encompasses of a variety of tasks that include

- Obtaining evidence
- Reporting
- Assisting in fraud detection and prevention

## Obtaining evidence

The value of an investigation rest on the credibility of evidence obtained, evidence usually takes the form of documents or statements by witnesses or suspects , therefore one must know how to properly and legally obtain documentary evidence and witness statements,

## Reporting

Once evidence has been obtained and analyzed and findings have been drawn from it the investigator must report the results from the designated individuals

## Assist in fraud prevention and detection

Investigators are expected to actively pursue and recommend appropriate policies and procedures to prevent fraud

# Obtaining evidence



When suspicions or allegations of fraud arises management should respond by engaging in the following actions

## 1. Activate a response team

The team members may vary depending on the facts and potential severity of the allegation but the team might include :

- Legal counsel,
- A representative of management,
- finance director,
- internal audit representative,
- audit committee member ,
- human resource representative
- IT representative.

## 2. Addressing immediate concerns

This includes

- Preserving relevant documents
- Identifying who should be informed

# Obtaining evidence



## 3. Conduct and initial assessment to determine the appropriate Response

The initial assessment should be quick and, unless complications arise, completed within a few days, ideally actions should be taken within three days of hearing about an incident

Generally, the investigation portion of the initial assessment involves

- Contacting the source, if the investigation was triggered by a report or a complaint
- Interviewing key individuals
- Reviewing key evidence
- Consider external or independent support

Once it is determined that an allegation or issue will need external support, the external investigators will start on a formal investigation which involves the following steps,

- Completing engagement letters or contracts
- Issuing advisory letters
- Assembling a team
- Learning about organization at issue
- Developing an investigation plan.



# Investigation interviewing techniques



An Interview is a question and answer session designed to elicit information it differs from ordinary conversation in that an interview is structured , not free –form and is designed for a purpose

To effectively prepare for the interview phase of an investigation, one should first develop a plan , it should involve

1. Contemplating what the interview is intended to accomplish
2. Stating the interview objective
3. Determining what information witnesses might offer and how to obtain it
4. Selecting a comfortable and secure venue
5. Selecting appropriate members of the investigative team as interviewer
6. Deciding which evidentiary documentary to obtain from the subject

Generally the most vulnerable witness should be interviewed before the most reluctant witness followed by Co-conspirators then finish up with Suspects

# Best practices for beginning an interview



- Make physical contact with the person being interviewed by shaking hands
- Describe the interview purpose by using a transitional statement that provides a legitimate basis for the inquiry and explain how respondent fit into it
- Seek continual agreement by attempting to phrase questions so that they can be answered 'yes'
- Do not invade personal space- remain at a distance of four to six feet
- Do not prepare a list of predetermined questions to ask the subject instead let the interview flow freely
- Only interview one person at a time
- Conduct interviews under conditions of privacy
- The interviewer must establish rapport with the respondent before beginning the fact gathering portion of the interview
- The interviewer should indicate his name and company, but should avoid stating his title
- Interviewer must be skilled to observe respondents reactions to questions

# Best practices for gathering information during interview



- Questioning should proceed from the general to the specific (general information before detailed information)
- Begin with known information and work towards unknown facts
- Ask a series of easy, open questions designed to get the respondent to talk about himself
- Discreetly observe verbal and non verbal behavior
- Ask non leading questions
- Approach sensitive questions carefully by making sure not to react excessively to the respondent statements
- Interviewer should reconfirm key facts during the closing phase of the interview
- The interviewer should conclude the interview in a manner that maintains goodwill
- Dealing with resistance – possible excuses when refusing a request for interview
  - “I’m too busy” – diffuse by stressing that the interview will be short
  - “I don’t know anything about it” – diffuse by accepting the statement and the responding with a questions such as “I see, what do your duties involve then?”
  - “I don’t remember” – diffuse by remaining silent while the person is deliberating or posing an alternative, narrower question.
- Attempt to keep the confessors from voicing a denial

# Bad practices when conducting an interview



- Writing down all the information given during the interview only the pertinent facts
- Slowing down the interview for note taking
- Express disgust, outrage, or moral condemnation about the confessor's actions instead offer a moral acceptance reasons for the confessor's behavior
- Emotive words such as thief, steal or crime
- Promising confidentiality

# Understanding the mindset of a fraudster



What causes one person facing financial hardship to steal from his employer while another finds a more honest way to pay his bills?

How do they continue to justify their actions to themselves as they carry out their schemes?  
To answer this question, let's look at some of the theories that seek to explain criminal behavior.

## Classical theories

- Believes that human beings are rational and calculating creatures and therefore do things to avoid pain and produce pleasure
- People have the free will, which they can use to engage in either criminal or non-criminal behaviors
- A criminal will be more attracted if the gains are estimated to be greater than the losses

## Routine activities theory

- Believes that a fraudster is motivated by greed, lust, and other forces
- Criminals can be motivated by the presence of offenders such as unhappy or financially challenged employees
- Can be motivated by the absence of capable guardians such as auditors and security personnel

# Understanding the mindset of a fraudster con'td



## Biological theories

Maintains that criminal calculates the benefits and potential losses

## Social theories

Holds that criminals functions in ways that the absorb information, viewpoints and motivation from others, most notably from those with whom they are close, such as members of their peers

## Theory of differential association

Criminal behavior is learned from other people

# Identifying best practices and risks associated with each step in the investigation



Best practices	Risk
Be thorough: plan the investigation	Litigation risk
Communicate with fairness in mind	Espionage
While reporting details the steps you have taken and why	unavailability of data/information
Preserve evidence- maintain a chain of custody for the evidence	Individual safety
Record interview statements immediately after interviews	
Have authentic evidence	



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THANK YOU GOD BLESS

