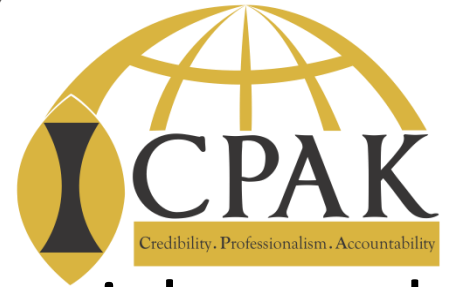




Fundamentals of Forensic Audit & Fraud Risk Assessment in the virtual working environment

FORENSIC AUDITS



This is an examination of an entity's financial records to derive/obtain evidence to support a legal proceeding in a court of law.

Forensic Audits are used to reveal the nature of fraud, how it was executed, who was involved and what was lost.

Above audit and accounting procedures, forensic audits required an understanding of the relevant legal procedures – lawyers and police....

FRAUD



There are many definitions of fraud but all are just about this

This is deliberate act of commission or omission intended to obtain an unauthorized/unfair/unlawful benefit/gain (financial, material or otherwise) for an individual or an organization using deceptive means, false suggestions or suppression/hiding of truth or other unethical means, which are believed and relied upon by others.

ELEMENTS OF FRAUD



- ✓ The facts of representation/misrepresentation
- ✓ The untruths/false/lies in the representation
- ✓ Their significance/materiality to the fraud/loss alleged
- ✓ Representers knowledge of the falsity/ignorance of truth
- ✓ Representers intention that his falsity is acted upon as intended
- ✓ Victims ignorance of the falsity

ELEMENTS OF FRAUD



- ✓ Victims reliance on the truth of the falsehood
- ✓ Victims right to rely on the misrepresentation
- ✓ The victims loss as a consequence of the reliance

WHY PEOPLE DEFRAUD



✓ The Fraud Triangle



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WHY PEOPLE DEFRAUD



- ✓ Opportunity – conducive environment and this can be tamed a bit through internal controls
- ✓ Pressure – Financial pressure and sometimes pure greed or passion
- ✓ Rationalization – justification – we all doing it, unfairness etc

Some Forensic Audits



- ✓ Financial statements fraud – e.g. liquidity, bonuses, loans, stock markets, public image etc
- ✓ Misappropriation of cash
- ✓ Ghost supplies of goods and services
- ✓ Production process losses
- ✓ Theft of inventory – unclear production processes
- ✓ Sales process losses
- ✓ Fake debtors, loans and overdrafts
- ✓ Parallel fraudulent supply chain management
- ✓ Corruption – Extortion, Bribery & Conflict of interest

Conduction a Forensic Audit



Unlike the ordinary/regular audit, a forensic audit calls for more activities and depth of work:-

- ✓ Thoroughly understand the project in order to PLAN effectively. The What, Who, How, When, Effects, Causes, Afterwards, Future etc depending on the project
- ✓ PLAN to obtain the evidence in a manner that addresses the forensic audit scope well. Beware of client management fraudsters as key contacts

Conduction a Forensic Audit



GATHERING EVIDENCE – A SIGNIFICANT AREA

- ✓ This is what you present in court
- ✓ Must be complete and very clear and specific
- ✓ Must address the accusations
- ✓ Must flow in a logical manner
- ✓ Must be authentic – source credibility and integrity must not be questionable
- ✓ Must be stored in a secure manner and restricted within the legal limits

Conduction a Forensic Audit



GATHERING EVIDENCE – HOW TO GATHER EVIDENCE FOR A FORENSIC AUDIT

- ✓ Data Analytics – a detailed process review
- ✓ Substantive techniques e.g. reconciliations.
Interfaced systems can be tricky. Be careful
- ✓ Thoroughly understand and test the Internal Controls and know the weaknesses, causes
- ✓ Apply tools like Robotics for efficiency
- ✓ Interview the suspects and take notes

Who can conduct a forensic audit



Basically, one needs certain qualifications and skills to conduct a forensic audit:-

- ✓ A Bachelors degree in a relevant field
- ✓ Accountancy skills – demonstrated by being a member of ICPAK in good standing – A MUST
- ✓ Auditing skills – CPA, CIA, CISA etc
- ✓ TODAY – IT Skills are CRITICAL/EXPERTS RELIANCE – must demonstrate understanding of the technical aspects affecting the fraud.

Who can conduct a forensic audit



Basically, one needs certain qualifications and skills to conduct a forensic audit:-

- ✓ A very good communicator – spoken and written.
Ambiguity or lack of clarity can free the criminal
- ✓ Excellent analytical and research skills
- ✓ A person of great curiosity at least beat women (the best FBIs.....)
- ✓ A persistent investigator committed to a result
- ✓ Thinks creatively, progressively, outside the box

Who can conduct a forensic audit



Basically, one needs certain qualifications and skills to conduct a forensic audit:-

- ✓ Excellent attention to detail – anything in the data population can be golden
- ✓ A good listener and one with a good memory too – sometimes you need to gather facts without taking notes.

IT CAN BE VERY RISKY TOO !!

Fraud Risk in Virtual Environments



While referring to the FRAUD definitions and factors above in a virtual environment, consider the marriage between the people, the business process and the technology and appreciate the risks:-

- The people factor drives the business and aligns business processes to technology
- The processes run the business whether automated or not
- The technology (IT) is an enabler here

Fraud Risk in Virtual Environments



Cybercrime is the commonest

Cybercrime, also called computer crime is act of using a computer to execute illegal activities including committing fraud, child trafficking, intellectual property theft, stealing identities, online harassment, phishing scams or violating privacy.

Fraud Risk in Virtual Environments



Working from home has led to an increased usage of IT to keep businesses running and at the same time ensure business communication. Both the businesses and criminals are trying to take advantage of the efficiencies in technology to work faster. Do business faster or defraud faster.

Fraud Risk in Virtual Environments



DATA THEFT – THIS IS A HUGE RISK TODAY
Someone has a live version of your entire Business Systems and they are managing the whole . At least 2 microfinance institutions have lost in excess of Kshs 300M through this weakness.

SOME IT INTERNS ARE MORE POWERFUL
THAT THE BOARDS AND CEOS.

Fraud Risk in Virtual Environments



SOFTWARE VENDOR ASSISTED FRAUD – ANOTHER HUGE RISK TODAY

Some CPAs ignore IT entirely and interact with reports coming from systems without any form of assurance as to their accuracy, completeness and validity.

Today, vendors are assisting business and IT professionals to steal from their clients – Come across 4 cases now – JUST FIX ITGCs fully!

Fraud Risk in Virtual Environments



Manipulation of e-business process practices in the absence of the normal meetings to commit fraud.

Private and public entities were caught unprepared and hastily adjusted to the need to conduct business electronically without adequate controls.

Fraud Risk in Virtual Environments



Manipulation of electronic payment processes especially with reduced physical oversight and alternative approval process.

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Fraud Risk in Virtual Environments



Stealing of corporate data for various reasons including fraud like for cards, MPESA or to lure unsuspecting contacts with near real offers.

Corporate attacks by hackers as monitoring is reduced to largely offsite.

Fraud Risk in Virtual Environments



Increased data manipulation by employees especially in IT for fraud purposes especially in collusion with organized cybercriminals outside organizations – Organized cybercriminals.

Relaxed IT controls outside corporate domains has also increased risk to data and processes.



CRITICAL DATA ANALYTIC SKILLS TO ENHANCE THE FORENSIC AUDIT PROCESS

CRITICAL DATA ANALYTIC SKILLS



Based on the type of forensic project you are doing, it is important to understand ahead of the project:

1. What are the client systems i.e. ERPs, applications e.g. SAP, Navision, Oracle Financials
2. Understand the client environment well – processes in and out of business systems;
3. Are data sources on Premise or in the cloud?
4. Are systems managed internally or outsourced?
5. Access the right systems – production and not test!

CRITICAL DATA ANALYTIC SKILLS



1. What tools might you need to access the data sources?
2. Is IT likely to be involved in the fraud
3. Are there data backups and are they reliable?
4. Are roles, policies and procedures defined?
5. Who will provide the required data, rights and privileges – no one self incriminates knowingly
6. What is the role of third parties in systems – some clients have poor knowledge of their systems no clear agreements with vendors

CRITICAL DATA ANALYTIC SKILLS



For data analytics in a forensic audit process to be successful these steps and skills are important:

- **KNOW WHAT YOU ARE LOOKING FOR – YOUR AUDIT OBJECTIVE** – Each Forensic Project has an objective. Most failures in forensic auditing process start from defining the objective. Whether narrow or broad, CLARITY is key.

CRITICAL DATA ANALYTIC SKILLS



- WHAT TESTS YOU NEED TO PERFORM – once you have the data, then what do you do with it? This needs to be clear to avoid wasting time.
- WHAT INFORMATION YOU NEED – DRIVEN FROM THE OBJECTIVE – How will you know you have what you were looking for? How do you know what you have is wrong – guard against embarrassing wrong analysis

CRITICAL DATA ANALYTIC SKILLS



- WHERE IS IT LOCATED/SOURCE – WHICH SYSTEM, WHICH TABLES, WHICH SERVER, WHERE? – are the systems connected? What type of database – oracle, SQL etc.. Where is the database stored? How many such storages? Are systems interconnected seamlessly or there are interfaces? Are interfaces secure?

CRITICAL DATA ANALYTIC SKILLS



- ALIGN YOUR DATA ANALYTICS TO THE BUSINESS PROCESS MAP AND BE SURE – this applies to all data analytic projects but for forensics, align it to your forensic audit work scope or possible scope in uncertain projects. Understanding your subject matter well will lead you to the correct data.

CRITICAL DATA ANALYTIC SKILLS



- OBTAIN INDEPENDENT ACCESS – GET IT YOURSELF, UNLESS YOU SUPERVISE THE MINING – this is a real challenge. Is the client data access assistant involved in the fraud? Is ICT involved? Is ICT performing operational shop floor activities? Have you leaked what you are looking for? Is the environment secured? Do you have the skills?

CRITICAL DATA ANALYTIC SKILLS



- MINE THE DATA TO ACL Data Analytics (Robotics) - 100% WITHIN YOUR DESIRED SCOPE. YOU MUST HAVE A SCOPE – This is critical. If your mission is leaked, ask management to secure production and safeguard backups if not done already. If you develop problems in your analytics mining again may be impossible if source is not safe.

CRITICAL DATA ANALYTIC SKILLS



- VERIFY THE DATA AND TEST FOR ACCURACY, COMPLETENESS AND VALIDITY – critical to avoid wasting time analyzing the wrong data set or population and then deriving wrong results or insights.
- If management is involved, they give you what they want you to see to deviate your attention

CRITICAL DATA ANALYTIC SKILLS



- SAVE THE DATA IN THE RAW FORM – you need the source you obtained in its raw nature while explaining your steps.
- SAVE/CONFIGURE YOUR TESTS IN ROBOTS – ensure that your tests are repeatable. It is exhausting to manually redo – Automate! You may repeat too many times.

CRITICAL DATA ANALYTIC SKILLS



- TEST AND RECONFIRM YOUR DATA ANALYTIC FINDINGS WITH OBJECTIVES – Compare the Robots results on the data sets to your mission and validate.
- Beware of false positives and false negatives. This can kill your report. The defense wants a small mistake to invalidate the entire set of findings.

CRITICAL DATA ANALYTIC SKILLS



- DEVELOP AND SAVE THE ROBOTS FOR FUTURE USE OR FOR CONTINUOUS USE IN FRAUD DETECTION AND PREVENTION ACTIVITIES – you need to have robots checking your systems or client systems (if in scope) to limit recurrence. You can automate fraud prevention and detection to near real time as per your needs.

CRITICAL DATA ANALYTIC SKILLS



- APPLY THE TEST SCRIPTS IN SIMILAR DATA SETS FOR CONSISTENCY IF REPEATABLE

Just set up the Robots!



ESSENTIALS OF FORENSIC AUDIT REPORTING

Forensic Reporting Essentials



Your Forensic Audit Report must be Accurate, Complete, Relevant to and supported fully by evidence. The report is to a client. It must answer the following questions:-

- ✓ What was the objective, scope and background
- ✓ What were the findings of the investigation,
- ✓ Summary of the evidence used,
- ✓ An explanation of how the fraud was perpetrated,
- ✓ Suggestions on how internal controls can be improved to prevent such frauds in the future.

Forensic Reporting Essentials



The client will decide if they would like to proceed to court or not.

If the client chooses to move to court then the forensic auditor must be present as an expert witness during the court proceedings to explain his/her evidence and how the suspects were identified.

Forensic Reporting Essentials



The auditor should simplify the report's audit, accounting, ICT and other issues and put it in a layman's language so that people who have no understanding of the audit, accounting, ICT and other industry terms can understand the fraud that was carried out.

Forensic Reporting Essentials



PLEASE NOTE THAT WHILE YOU MAY PRESENT
ACCURATE, COMPLETE, VALID FACTS IN GREAT
ENGLISH LANGUAGE AND BEAUTIFUL COLOURS, YOU
ONLY WIN IF THE JUDGE UNDERSTANDS.

DON'T TRY TO IMPRESS, TRY TO CONVINCE.

Forensic Reporting Essentials



IS CONTRIBUTORY NEGLIGENCE A DEFENSE?

Can defense argue in court that they performed the fraudulent activities in the normal course of business and it is the weak internal controls of the plaintiff that led to the losses. NOT SO MUCH IN A FRAUD CASE. FRAUD IS FRAUD. But it can cause a great deal of confusion in complicated fraud cases.

GO CATCH THE CRIMINALS



THANK YOU FOR LISTENING
SEE YOU AGAIN !!

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