



**FORENSIC AND INVESTIGATIVE AUDITS -
KEY CONSIDERATIONS FOR AUDIT
COMMITTEES IN NAVIGATING THE
REQUIREMENTS AS THEY FULFIL THEIR
ROLES.**

STATUTORY AUDITS



A formal examination of an organization's or individual's accounts or financial situation. It is conducted by accounting firms to give an opinion on the financial statements. Whether books of accounts give a true and fair view and are free of material misstatements.

Most common to BAC, directors, owners or individuals. Mostly called external audit.

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INTERNAL AUDITS



An internal audit, done by an internal auditor, is an examination of a company's accounts or activities by its own management to check adherence to internal controls, policies and procedures or compliance to regulatory and other requirements.

It is meant to review the health of your organization, uncover potential areas of vulnerability and ensure proper controls are in place.

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INTERNAL AUDITS



Internal Audits are often conducted by accounting professionals or Certified Internal Auditors (CIAs).

In modern times, internal audits must move beyond simple accounting to extensive ICT knowledge and other technical skills because nearly all transactions are electronic nowadays.

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INTERNAL AUDIT WORKS



Violation of established policies and procedures.

Non-compliance with laws and regulations.

Lack of accountability in the conduct of business.

Significant changes in industry and technology.

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INTERNAL AUDIT WORKS



Special projects requiring special expertise.

ICT risks, breaches or potential of such.

Complexity of businesses where the strategy is clear but the supporting objectives are not very visible.

General people, process and technology issues.

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FORENSIC AUDITS



Forensic means – scientific methods or techniques used in the investigation of a crime. It means “suitable to courts of judicature or to public discussion and debate.”

A forensic audit objective is to investigate the matter with the intention it will appear in court, trial or mediation.

FORENSIC AUDITS



Forensic Auditor or Accountant - someone whose job is examining financial records to help find out whether a crime has been committed, or help with a legal case or basically look out for any illegal activities.

A forensic audit/examination is an extensive reconstruction of past financial transactions and related matters to reveal specific crimes like fraud.

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FORENSIC AUDITS



Conducted by forensic accountants considered experts in the area of concern or CFE's.

It is critical to understand the difference because that helps to determine which one you need at a particular time in your organization.

WHEN TO CONDUCT FORENSIC AUDITS



- ✓ Cybercrimes - Theft of data or manipulation of ICT Systems for fraud.
- ✓ Theft is suspected to have happened internally or externally
- ✓ Unexpected business results – a profit or a loss where the opposite was expected.

WHEN TO CONDUCT FORENSIC AUDITS



- ✓ Misrepresentation of facts – Assets thought to be owned by the company are actually not.
- ✓ Unreconciled differences and account balances that are not explained.
- ✓ Suspicious vendor payments or failure to pay vendors

WHEN TO CONDUCT FORENSIC AUDITS



- ✓ Debtors/Customers that should have paid but have not.
- ✓ Missing inventories or changing inventory balances not supported by business performance.
- ✓ Unexplained high cost of production in direct and indirect costs.

WHEN TO CONDUCT FORENSIC AUDITS



Whistleblowers accounts alluding to loss of assets

Noticeable lifestyle changes of certain people not backed up by their known information.

BAC CONSIDERATIONS FOR FORENSIC AUDITS



- ✓ When is there a need for a forensic audit or investigation?
- ✓ If there is need, do we investigate and if we do, do we prosecute?
- ✓ What are the implications of a Forensic Audit no matter the results?

BAC CONSIDERATIONS FOR FORENSIC AUDITS



- ✓ Are there adequate controls to flag frauds and irregularities?
- ✓ Is the IA team competent enough to detect fraud and irregularities?
- ✓ Are internal and external auditors independent enough to flag frauds?

BAC CONSIDERATIONS FOR FORENSIC AUDITS



- ✓ Are Risk and Internal Audit units empowered and well resourced? Is the Audit technology aligned and responsive to business technology?
- ✓ Will a Forensic Audit be supported by well documented policies and procedures or is there contributory negligence?

BAC CONSIDERATIONS FOR FORENSIC AUDITS



- ✓ Is the mix in the board audit committee good enough to smell any unusual things in the audit or management reports?
- ✓ Does the BAC have “teeth” and if it does “can it bite”?

BAC CONSIDERATIONS FOR FORENSIC AUDITS



- ✓ What is the relationship between BAC and the main board?
- ✓ Do we have a towering, domineering CEO, a publicist who overrides the board?

FRAUD INVESTIGATIONS



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

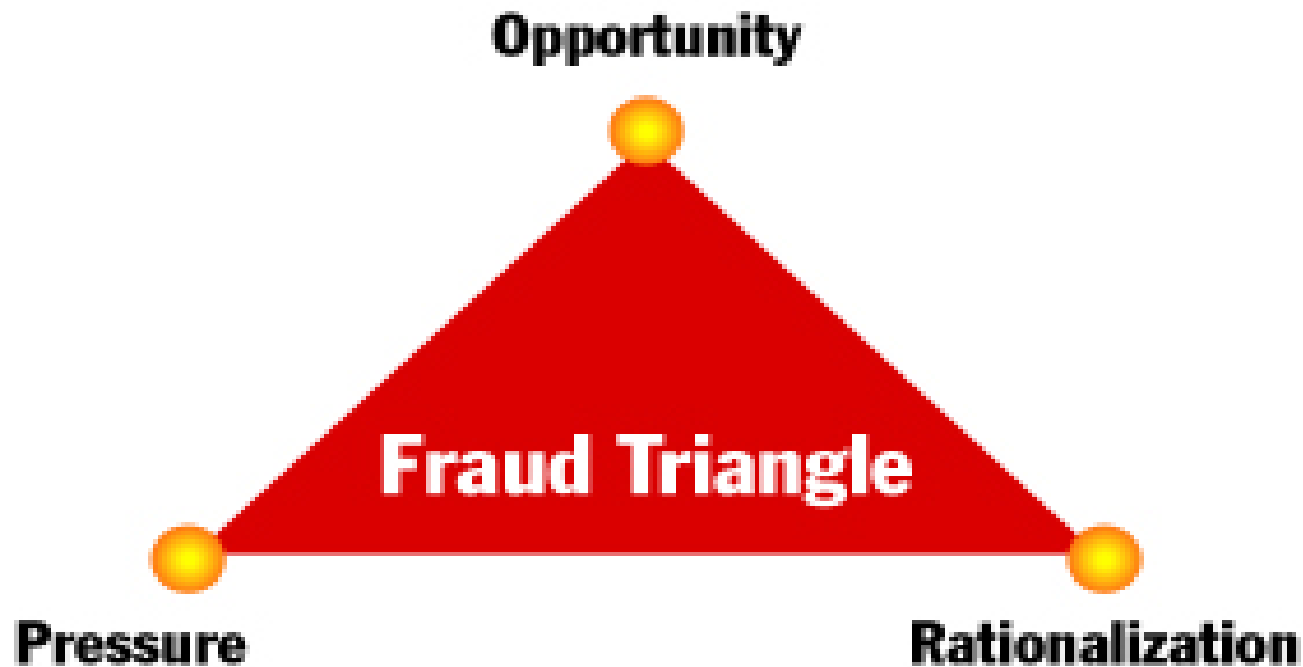


- ✓ Victims reliance on the truth of the falsehood
- ✓ Victims right to rely on the misrepresentation
- ✓ The victims loss as a consequence of the reliance

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

Conducting 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 !!



CASE STUDIES



**SETTING THE RIGHT TONE AND
INFRASTRUCTURE TO ENABLE
SUCCESSFUL ANONYMOUS WHISTLE
BLOWING BY VARIOUS
STAKEHOLDERS**

WHISTLEBLOWING AND WHISTLEBLOWERS



A whistleblower is mostly and employee who exposes illegal, fraudulent, wasteful or abusive activities in an organization whether public, private or government.

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WHISTLEBLOWING AND WHISTLEBLOWERS



A whistleblower (on fraud, crimes, injustices, law breaking etc.) is different from a complainant (bullied, beaten, harassed, discriminated, attached etc.).

A whistleblower is not an interested beneficiary and has no obligation to show proof their claim unlike a complainant.

WHISTLEBLOWING AND WHISTLEBLOWERS



An effective whistleblowing system is an anonymous way for employees to report misconduct.

A whistleblower may be external or internal. Reports to management or to other parties like regulatory agencies or media.

WHISTLEBLOWING AND WHISTLEBLOWERS



A well-structured and anonymous whistleblowing system is a key component of internal control. When in place employees are likely to highlight fraud internally rather than externally.

WHISTLEBLOWING AND WHISTLEBLOWERS



Whistleblowing systems helps organizations detect fraud and other malpractices and investigate them. It is itself a deterrent to fraud.

BENEFITS OF INTERNAL WHISTLEBLOWING



- ✓ A way of fighting fraud and corruption
- ✓ Manage issues internally and do not escalate to the public
- ✓ Manage risks through whistleblower notes

BENEFITS OF INTERNAL WHISTLEBLOWING



- ✓ Is a good component of ERM – objectives, risks, controls and their related efficiencies and effectiveness.
- ✓ An efficient tool for internal control
- ✓ Can help an organization connect between reality and reports

BENEFITS OF INTERNAL WHISTLEBLOWING



- ✓ Can help build trust
- ✓ Makes people feel appreciated, involved and important
- ✓ People feel wanted and accepted

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DISADVANTAGES OF WHISTLEBLOWING



- ✓ Whistleblowers face risks of being fired or even personal harm. They need to be anonymous and if not, they need to be protected.
- ✓ Whistle blowers may lose their privacy and may be exposed to other unexpected risks

DISADVANTAGES OF WHISTLEBLOWING



- ✓ Reputation damage to the company if the matters are public that should not.
- ✓ May lead to costly litigations and expose the company as well.

DISADVANTAGES OF WHISTLEBLOWING



- ✓ False blowers may really cause chaos in an organization
- ✓ Abuse of the system to settle scores and personal differences through embarrassing others.

WHISTLEBLOWING OR NOT – THE BALANCE



What is the best balance?

Have a clear internal whistleblowing mechanism that encourages dealing with issues internally and even rewards reporting internally as opposed to externally.

BUILDING A WHISTLEBLOWER PROGRAM – BAC POINTS



- ✓ Commitment from the leadership. The board must be vocal about not tolerating the things they want whistle blown.
- ✓ Boards need to be clean themselves – don't preach water and drink wine
- ✓ Invest in a structure, a system that can do the job.

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BUILDING A WHISTLEBLOWER PROGRAM – BAC POINTS



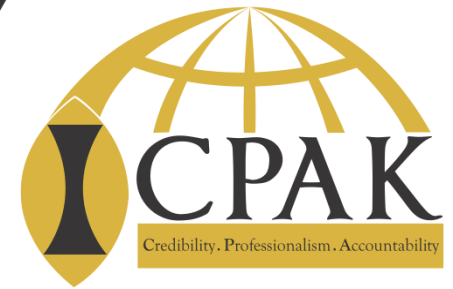
- ✓ Define the what, when, how and who of the whistleblowing.
- ✓ Continuously communicate the program as anonymous
- ✓ Demonstrate it is anonymous

BUILDING A WHISTLEBLOWER PROGRAM – BAC POINTS



- ✓ Use platforms that help protect the identity of the whistleblowers
- ✓ Ask questions in a manner that doesn't seem to try and know the whistleblower
- ✓ Investigate the issues and not the whistleblower

BUILDING A WHISTLEBLOWER PROGRAM – BAC POINTS



- ✓ Keep reminding employees that the process is anonymous
- ✓ Act in good faith, follow-up the issue and take actions
- ✓ Ignoring issues will kill the program



CASE STUDIES

GO CATCH THE CRIMINALS



THANK YOU FOR LISTENING
SEE YOU AGAIN !!

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