



# **ANNUAL GOVERNANCE AND ETHICS CONFERENCE**

**Building Trust in Organization-Wide  
Governance and Ethical Structures**

**12 October 2021**

# Governance, Forensics and Internal Controls



## The place of **GOVERNANCE** in **FORENSIC AUDIT INVESTIGATION PROCEDURES** and setting the tone on **STRONG INTERNAL CONTROLS**

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# GOVERNANCE



This is a system by which organizations are directed or controlled. This is exercised by the board of directors, appointed by the shareholders. It is implemented by delegation to management.

Governance responsibilities include; Regulatory compliance – the law, effectiveness, efficiency, accountability, transparency, responsiveness, consensus, strategy, risk management, ethics, oversight and financial planning.

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# GOVERNANCE, TRUST AND ETHICS



Trust is firm belief in the reliability, truth, or ability of someone or something.

*“can you as well trust someone to execute a fraud successfully – a perfect, able and truthful fraudster?”*

Ethics is the moral principles that govern a person's behaviour or the conducting of an activity.

## **TRUST MUST BE GOVERNED AND CONTROLLED**

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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



This is an examination of an entity's financial records to 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 require an understanding of the relevant legal procedures – lawyers and police.

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# INTERNAL CONTROL



This is a process that ensures that an entity is achieving its objectives in an effective and efficient manner through compliance with policies and procedures, reliable financial accounting and reporting and compliance with the law.

Key elements include the people, process, technology, Business objectives, Risk assessment, Control activities, information and communication and monitoring.

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# FRAUD AND FORENSIC INVESTIGATIONS



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

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# FRAUD AND FORENSIC INVESTIGATIONS



- ✓ The facts of representation, misrepresentation
- ✓ The untruths, falsehood/lies in the representation
- ✓ Their significance/materiality to the fraud/loss alleged
- ✓ Representers knowledge of the falsity/ignorance of truth

# FRAUD AND FORENSIC INVESTIGATIONS



- ✓ Representers intention that his falsity is acted upon as intended
- ✓ Victim's ignorance of the falsity
- ✓ Victim's reliance on the truth of the falsehood
- ✓ Victims right to rely on the misrepresentation
- ✓ The victim's loss because of the reliance

# Governance People and Fraud



- ✓ 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

# Governance, Forensic Investigations and Internal Control - Examples



- ✓ 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.

# Governance, Forensic Investigations and Internal Control - Examples



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

# Governance, Forensic Investigations and Internal Control - Examples



- ✓ 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.

# Governance, Forensic Investigations and Internal Control - Examples



Whistleblowers accounts alluding to loss of assets

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

# Critical Governance Decisions on Forensic Investigations



- ✓ 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?

# Critical Governance Decisions on Forensic Investigations



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

# Critical Governance Decisions on Forensic Investigations



- ✓ 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?

# Impact of Governance and Internal Control on Forensic Audit process



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

# Impact of Governance and Internal Control on Forensic Audit process



## 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

# Impact of Governance and Internal Control on Forensic Audit process



## 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 automated data analytics for efficiency
- ✓ Interview the suspects and take notes

# Impact of Governance and Internal Control on Forensic Audit process



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.

# Impact of Governance and Internal Control on Forensic Audit process



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.

# Impact of Governance and Internal Control on Forensic Audit process



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.

# Impact of Governance and Internal Control on Forensic Audit process



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.

IT IS NOT ABOUT IMPRESSING BUT CONVINCING

# Impact of Governance and Internal Control on Forensic Audit process



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.

# Impact of Governance and Internal Control on Forensic Audit process



## REVIEW OF THE CASE STUDIES SHARED WITH THE PARTICIPANTS

### Q AND A

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**REMEMBER, IT IS ABOUT PEOPLE,  
PROCESS & TECHNOLOGY**



**THANK YOU FOR LISTENING  
SEE YOU AGAIN !!**

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