

# Internal control and deontology

# **Chapter 8: Fraud**



Internal control and deontology Chapter 8



# 1. What is fraud?

• No 'clear' definition: it can be manipulation, deception, corruption or just monkey business but always in view of personal gain/profit.

- The common features of fraud are:
  - An intentional act
  - Misrepresentation of facts
  - In view of personal (economic) gain
  - Unlawful or illegal act
  - To somebody's disadvantage



# 2. Types of fraud

Examples:

- Exam fraud
- Diploma fraud ,CV fraud
- Tax fraud
- VAT fraud
- Money laundering
- Etc.

#### Fraud occurs in all types of organisations

How to reduce fraud risks?

- Proper internal control measurements (seggregation of duties, procedures,..., etc.)
- Stimulation an integer culture/corporate governance

BUT, fraud risk can never be elimintated completely!

Fraud Risk Management: controlling fraud risks and anticipate claims



SOCIAL,



# 2. Types of fraud

# Abuse of assets:

- Most frequent type of fraude
- Thefts, abusing corporate assets, salary fraud, creation of fake/false invoices or documents, fraudulous expense notes, etc

# **Corruption**:

- Abuse of bargaining/negociation power to obtain personal gain
- In conflict with benefit/rights of others
- Examples: conflict of interest, bribing, illegale gifts, extortion, ...

# Financial statements fraud:

• Intentional, wrong presentation of financial figures (overestimation of assets and proceeds, underestimation of debts and costs)

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BRON: The ACFE's 2010 Report to the Nations on Occupational Fraud and Abuse

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# 3.Forensic audit

Specialization in the audit domain dealing with fraud detection and controlling.

Forensic auditors need to have special skills

•Financial investigation and detection techniques,

Interview and interrogation skills

•Knowledge of financial criminal techniques and scene How to prevent fraude?

- 1. Seggregation of duties
- 2. Formal authorisation rules
- 3. Physical protection of assest
- 4. Job rotation
- 5. Make holidays mandatory



# REPORT TO THE NATIONS ON OCCUPATIONAL FRAUD AND ABUSE



2010 Global Fraud Study



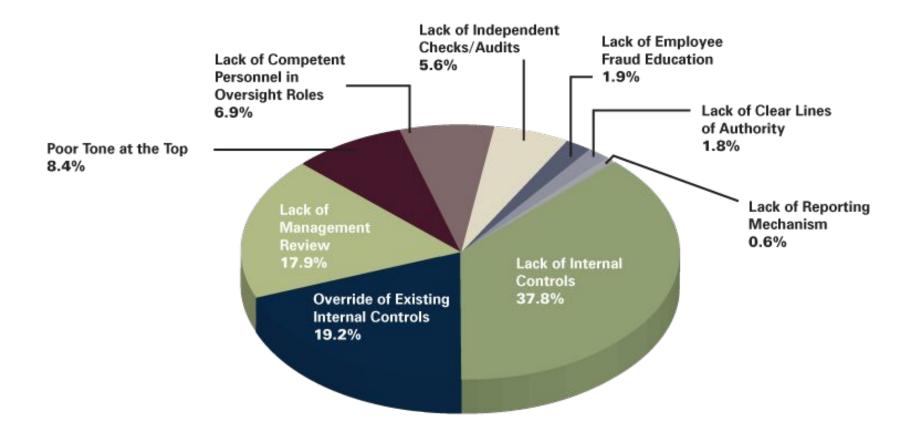
Together, Reducing Fraud Worldwide

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#### Interne controle in de praktijk

# Fraude

# Why was the fraud scheme possible?





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# How was the fraud detected?



External Audit of F/S 76.1% Code of Conduct 69.9% Internal Audit/FE Department 66.4% External Audit of ICOFR 59.3% Anti-Fraud Control<sup>15</sup> Management Certification of F/S 58.9% Management Review 53.3% Independent Audit Committee 53.2% Hotline 48.6% Employee Support Programs 44.8% Fraud Training for Managers/Executives 41.5% Fraud Training for Employees 39.6% Anti-Fraud Policy 39.0% Surprise Audits 28.9% Job Rotation/Mandatory Vacation 14.6% Rewards for Whistleblowers 7.4% 10% 20% 30% 40% 50% 60% 70% 80% 0%

Percent of Cases



# Fraud

# Some figures

Fraud with the hightest occurance rate  $\neq$  highest financial impact

American research:

- abuse of assets = 78% of all cases
- corruption= 14%
- financial statements fraud = 8%.
- BUT the impact is conversely:
  - financial statements fraud: avg2.000.000 USD,
  - corruption: avg 530.000 USD
  - abuse of assets: avg 150.000 USD.

Conclusion: perpetrators of fraud are most of the time (senior) managers

<u>Source:</u> ACFE (Association of Certified Fraud Examiners) Data Averages 2004 & 2006 "Occurrence Rates for Types of Fraudes"





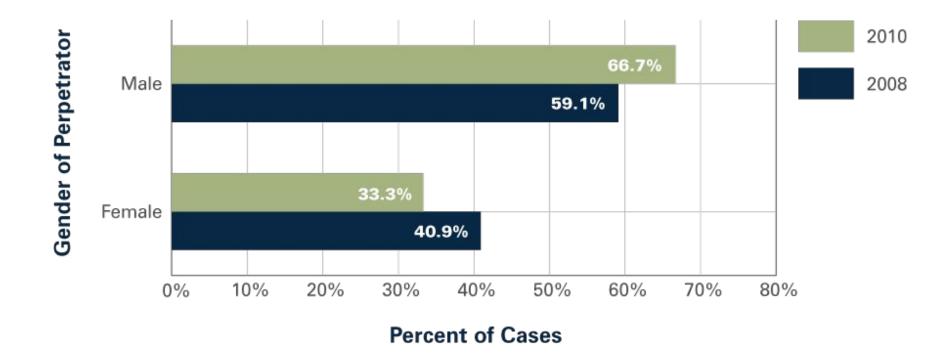
# Median Loss

Source: The ACFE's 2010 Report to the Nations on Occupational Fraud and Abuse is based on data compiled from a study of 1,843 cases of occupational fraud that occurred worldwide between January 2008 and December 2009

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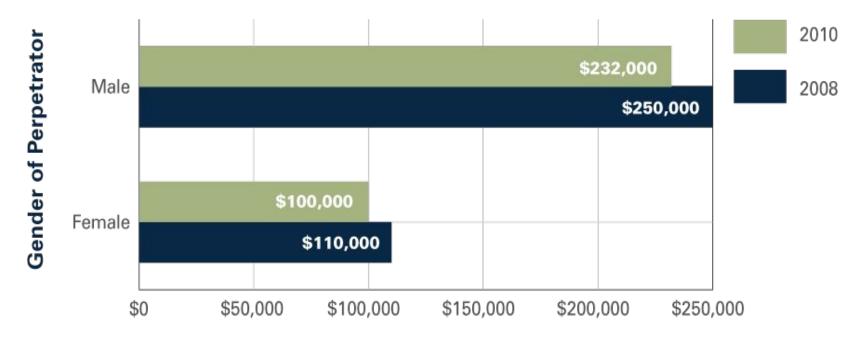
# More fraud is perpetrated by men Why?





Impact by gender





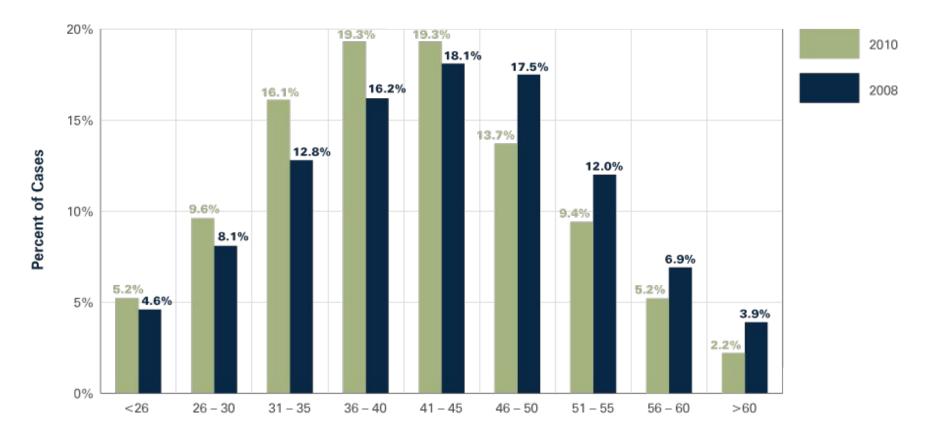
# **Median Loss**



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# Age of perpetrators

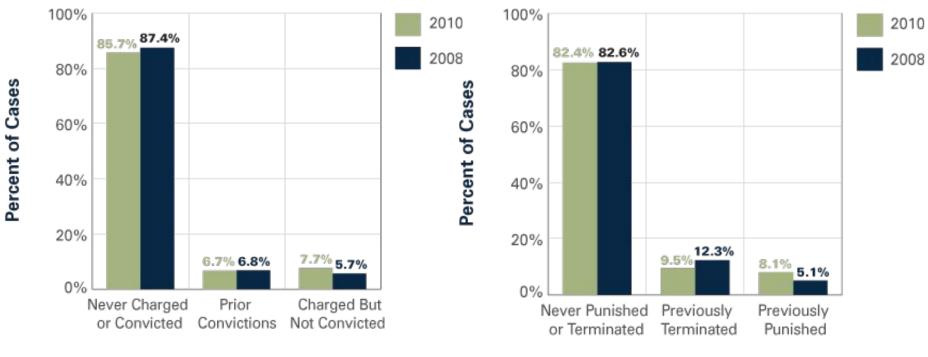




# Criminal background of perpetrator



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**Criminal Background** 

**Employment Background** 



# Fraud

# How is fraud detected?



Tip				40.2%	
Management Review		15.4%			
Internal Audit		13.9%			
By Accident	8.3%				
Account Reconciliation	6.1%				
Document Examination	5.2%				
External Audit	4.6%				
Surveillance/Monitoring	2.6%				
Notified by Police	1.8%				
Confession	1.0%				
IT Controls	0.8%				
	0%	10%	20% 3	0% 40	% 50%

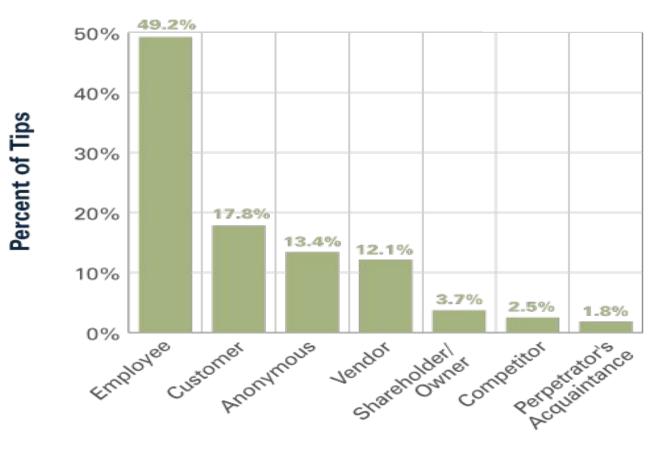
# **Percent of Cases**



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# Who is the source of tips ?



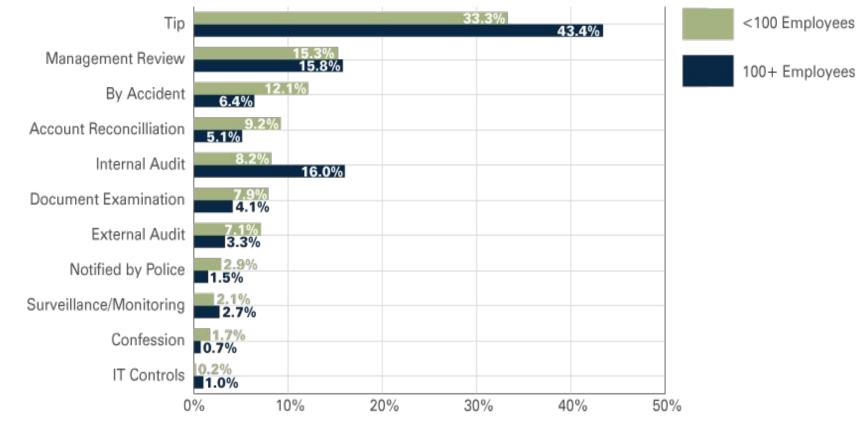
# Source of Tips

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# **Detection methods**

Detection Method

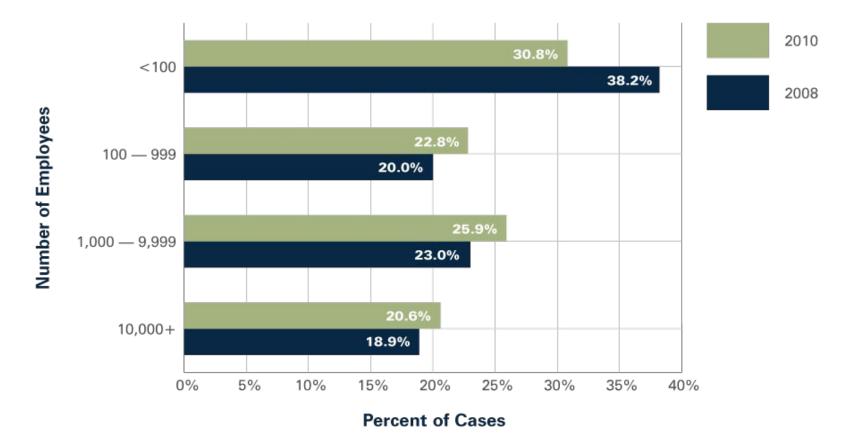


Fraud

Percent of Cases

# Fraud

# **Occurance of fraude in SME's**



<u>Source</u>: The ACFE's 2010 Report to the Nations on Occupational Fraud and Abuse is based on data compiled from a study of 1,843 cases of occupational fraud that occurred worldwide between January 2008 and December 2009





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# Marana A

#### External Audit of F/S 51.8% <100 Employees 88.0% 41.2% Code of Conduct 83.2% 100+ Employees 32.6% Management Certification of F/S 71.7% 30.5% Management Review 63.8% Internal Audit/FE Department 29.6% 82.6% 28.5% External Audit of ICOFR 73.2% 22.7% Independent Audit Committee 67.4% 18.8% Employee Support Programs 57.4% Fraud Training for Managers/Executives 15.6% 53.1% 15.5% Anti-Fraud Policy 50.0% 15.1% Hotline 64.2% 13.4% Fraud Training for Employees 51.4% 11.4% Surprise Audits 36.9% 6.1% 18.3% Job Rotation/Mandatory Vacation Rewards for Whistleblowers 9.3% 0% 20% 40% 60% 80% 100% Percent of Cases

Fraud

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Anti-fraud controls

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# Fraud schemes

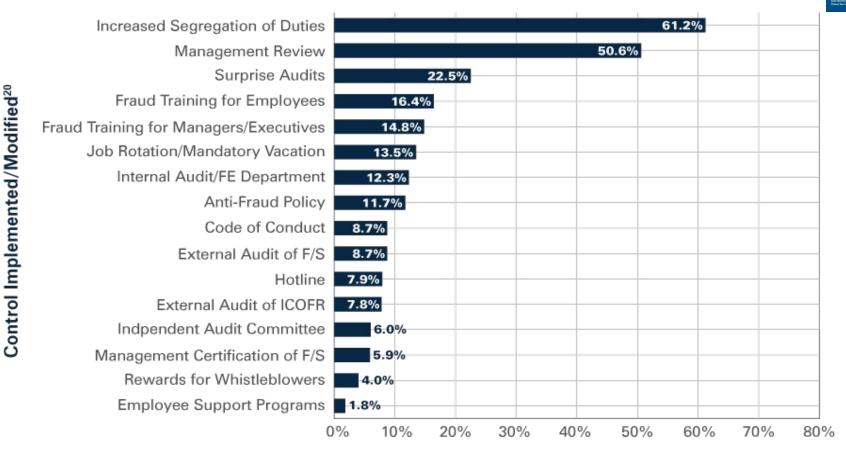
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Small Businesses (<100 Employees) — 537 Cases					
Scheme	Number of Cases	Percent of Cases <sup>10</sup>			
Billing	154	28.7%			
Check Tampering	140	26.1%			
Corruption	137	25.5%			
Skimming	116	21.6%			
Expense Reimbursements	90	16.8%			
Non-Cash	80	14.9%			
Cash on Hand	79	14.7%			
Payroll	72	13.4%			
Larceny	66	12.3%			
Financial Statement Fraud	30	5.6%			



# Fraud

# Implemented controls after fraud detection



#### Percent of Cases