

# Internal control and deontology

## Chapter 8: Fraud

# 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 (segregation of duties, procedures,..., etc.)
- Stimulation an integer culture/corporate governance

BUT, fraud risk can never be eliminated completely!

**Fraud Risk Management: controlling fraud risks and anticipate claims**

## 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, fraudulent expense notes, etc

### **Corruption:**

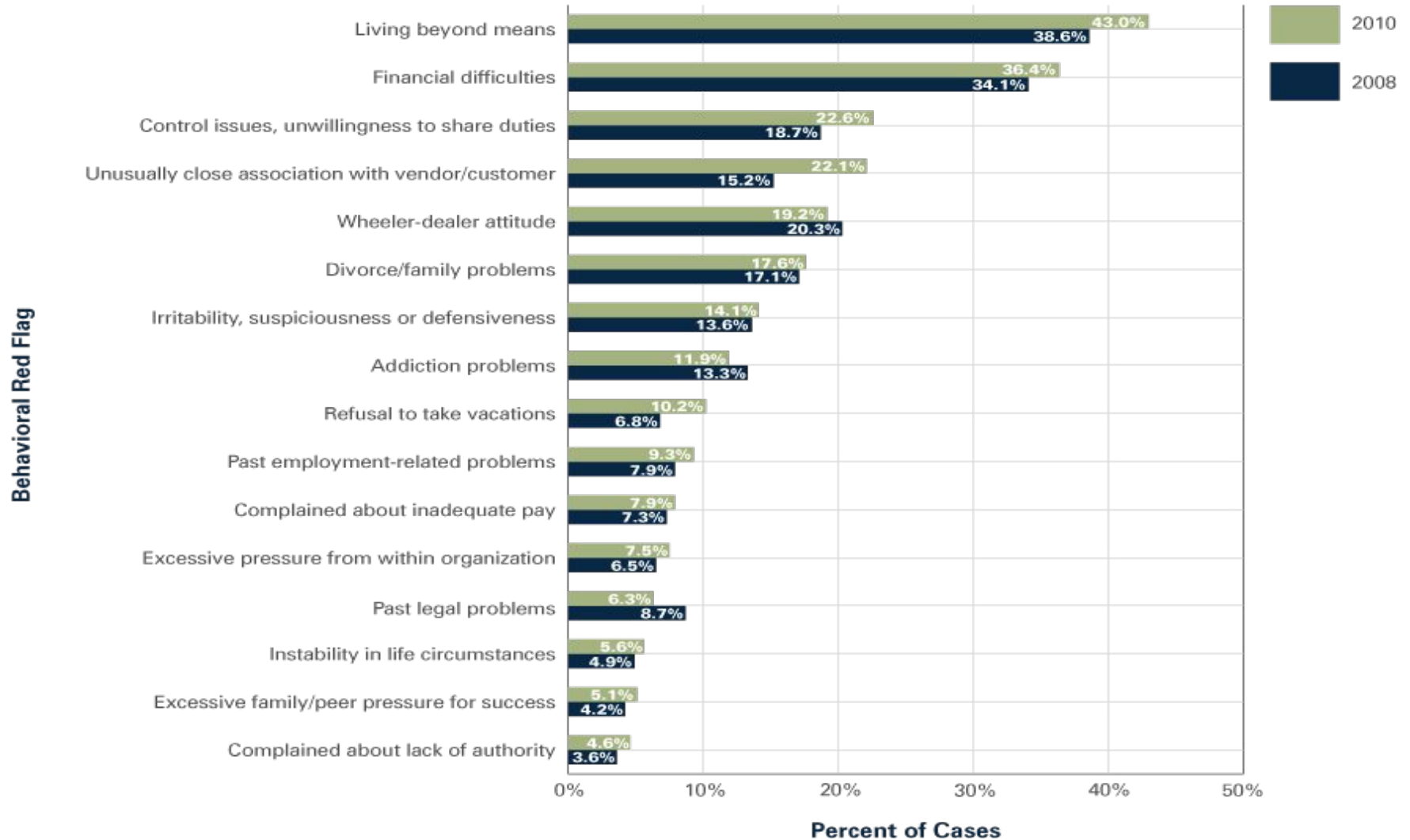
- Abuse of bargaining/negotiation power to obtain personal gain
- In conflict with benefit/rights of others
- Examples: conflict of interest, bribing, illegale gifts, extortion, ...

### **Financial statements fraud:**

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

# Fraude

## Red flags for fraud



BRON: *The ACFE's 2010 Report to the Nations on Occupational Fraud and Abuse* <sup>5</sup>

# 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. Segregation 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



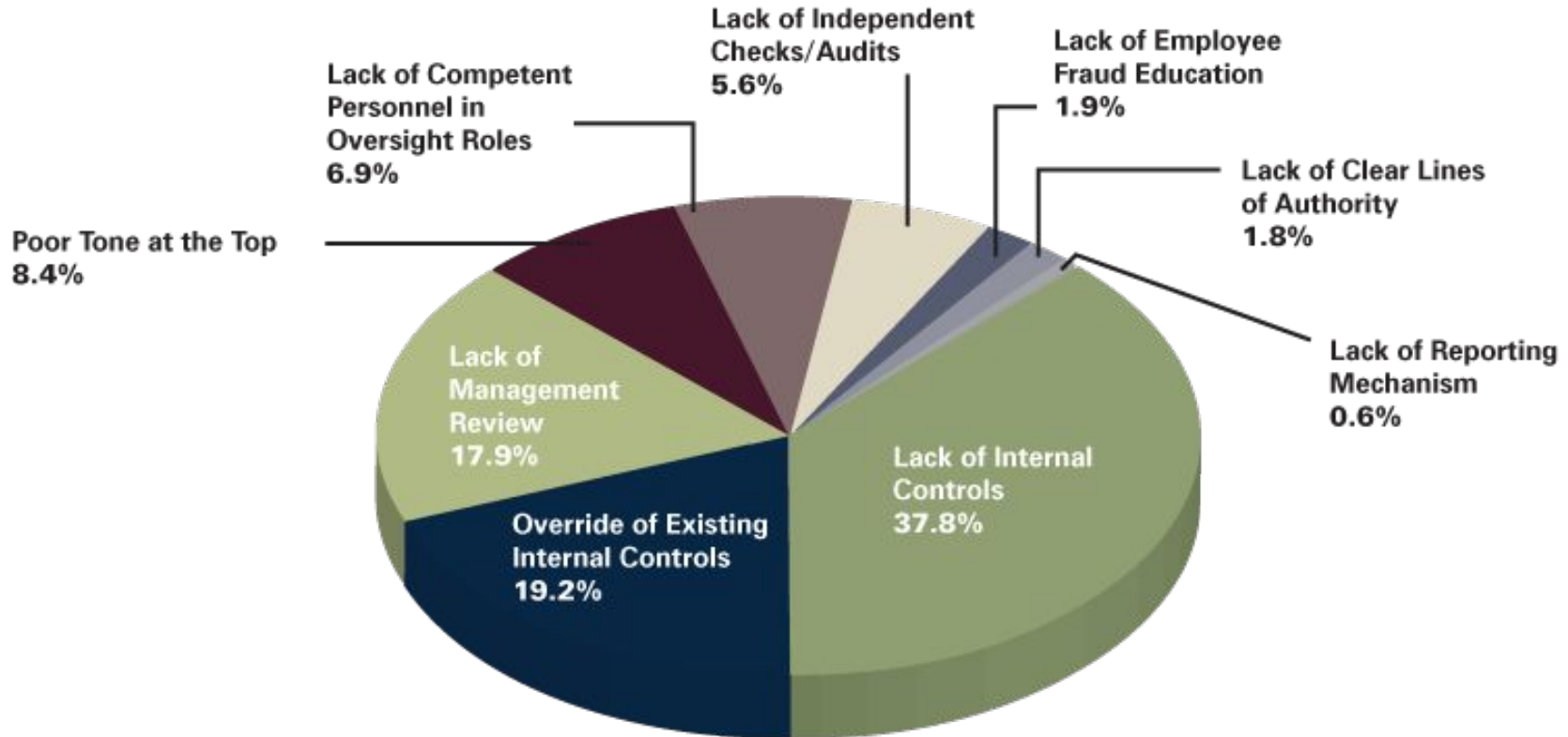
*2010 Global Fraud Study*



*Together, Reducing  
Fraud Worldwide*

## Fraude

### Why was the fraud scheme possible?

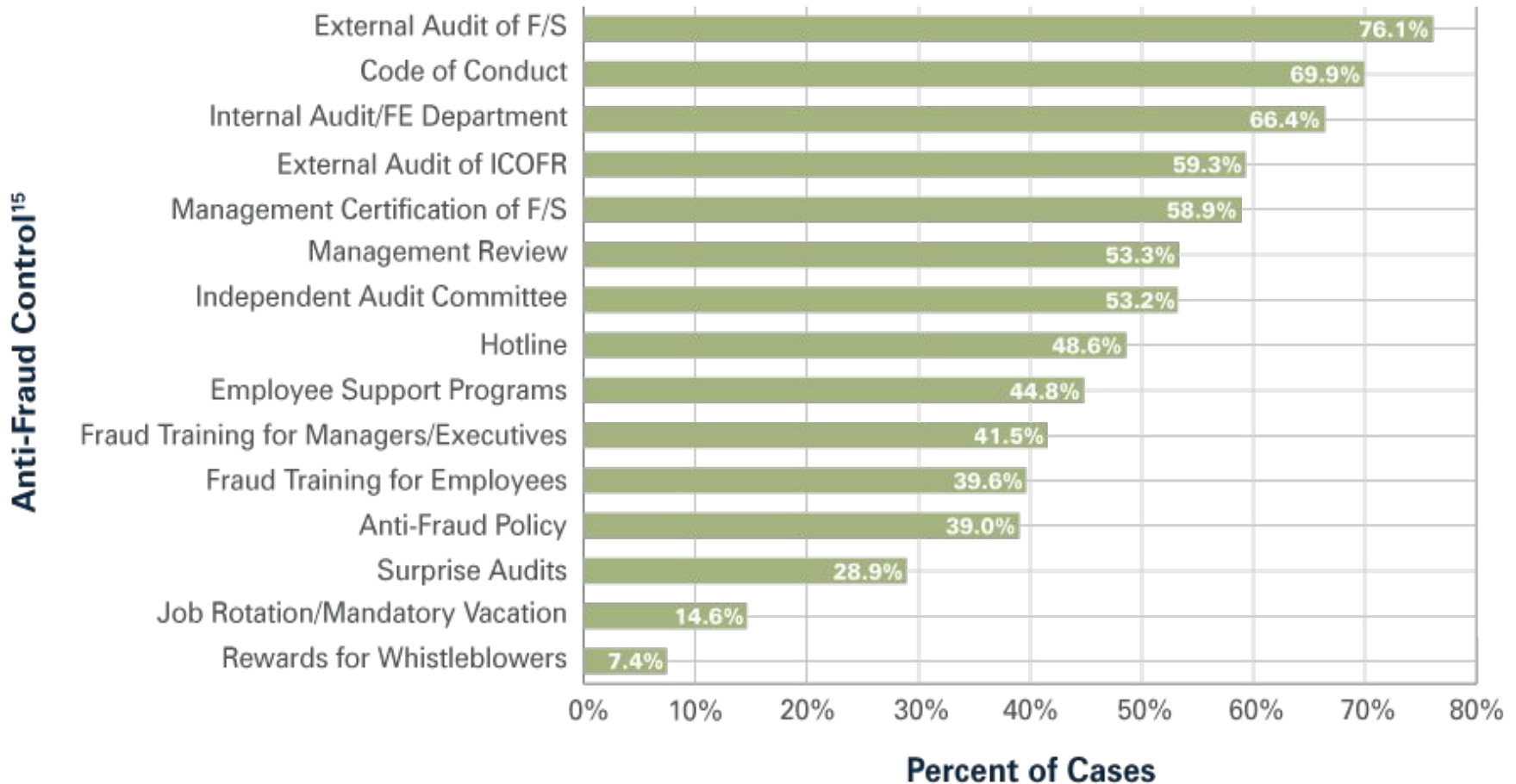


Source: *The ACFE's 2010 Report to the Nations on Occupational Fraud and Abuse* is based on data compiled from a study of 1,843 cases of occupational fraud that occurred worldwide between January 2008 and December 2009



# Fraude

## How was the fraud detected?



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

# Fraud

## Some figures

Fraud with the highest occurrence rate  $\neq$  highest financial impact

American research:

- abuse of assets = 78% of all cases
- corruption = 14%
- financial statements fraud = 8%.

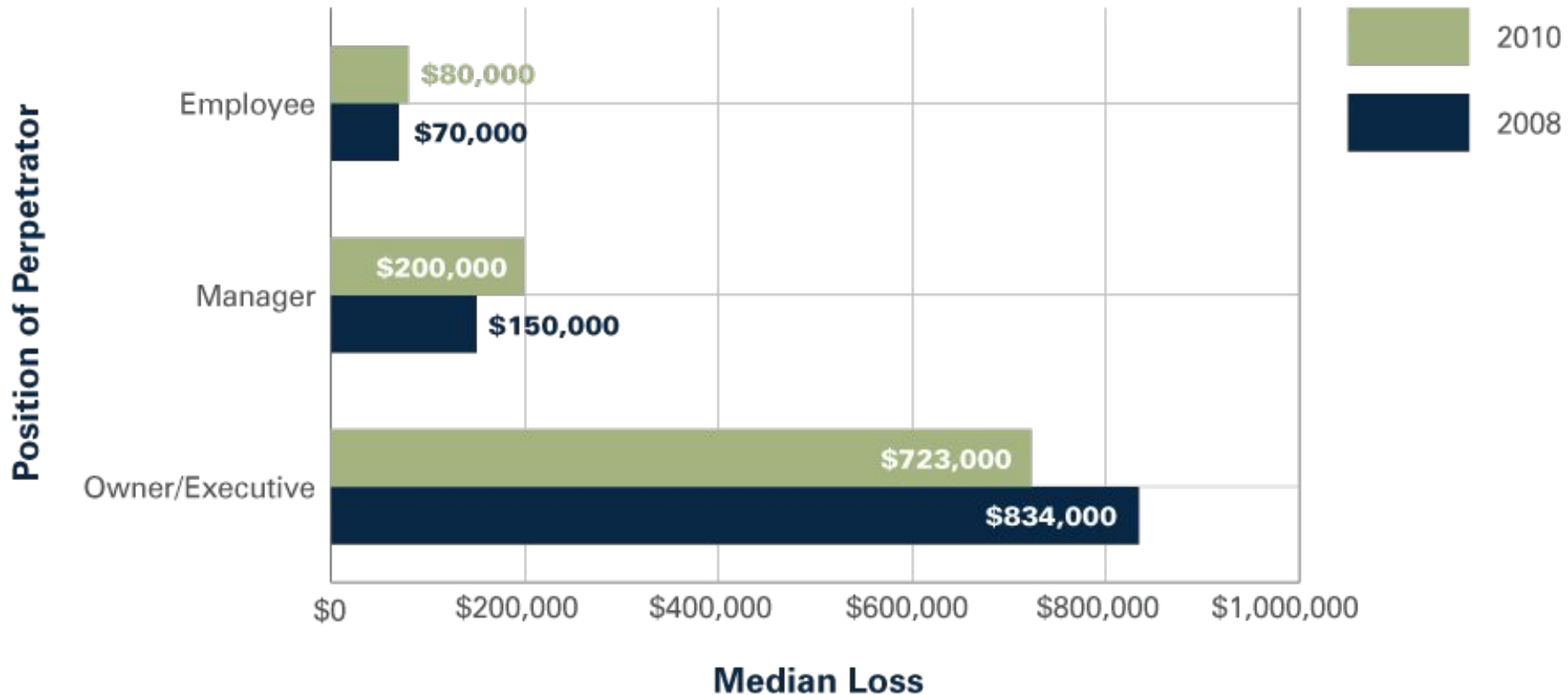
BUT the impact is conversely:

- financial statements fraud: avg 2.000.000 USD,
- corruption: avg 530.000 USD
- abuse of assets: avg 150.000 USD.

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

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

## Fraud: some facts

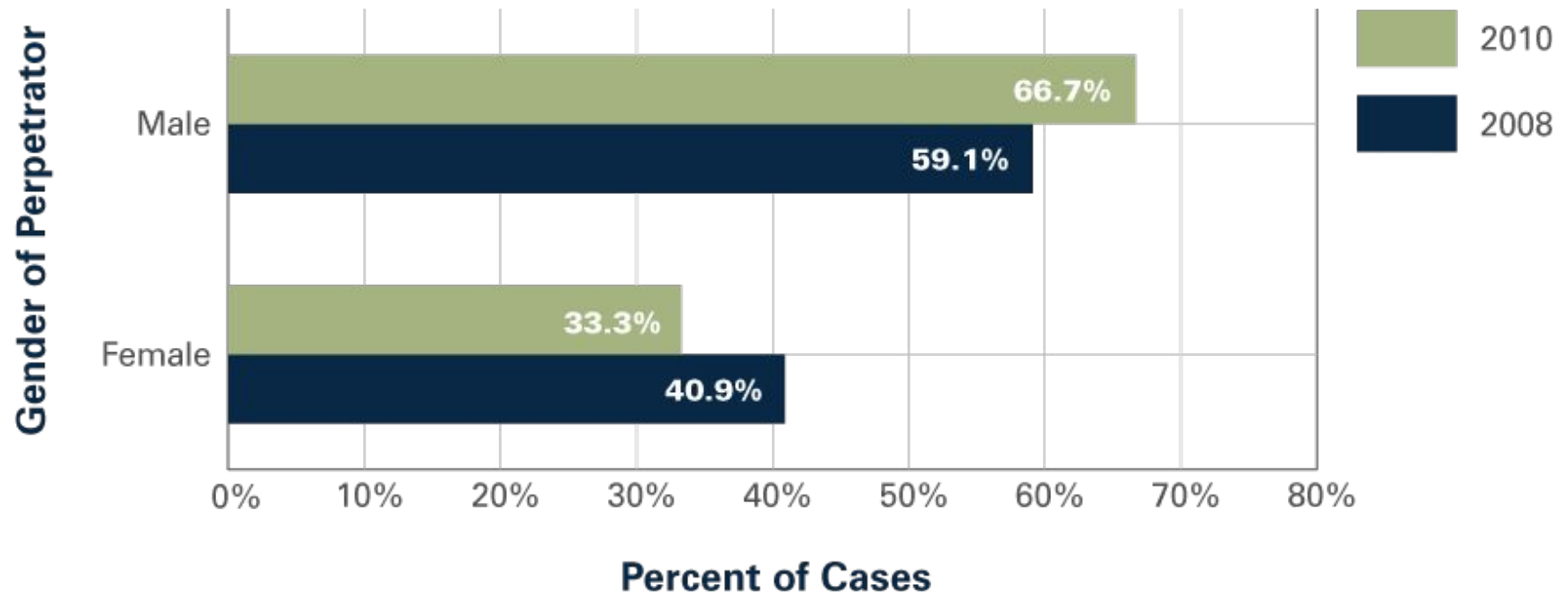


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## Fraud: some facts

### **More fraud is perpetrated by men**

Why?



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## Fraud: some facts

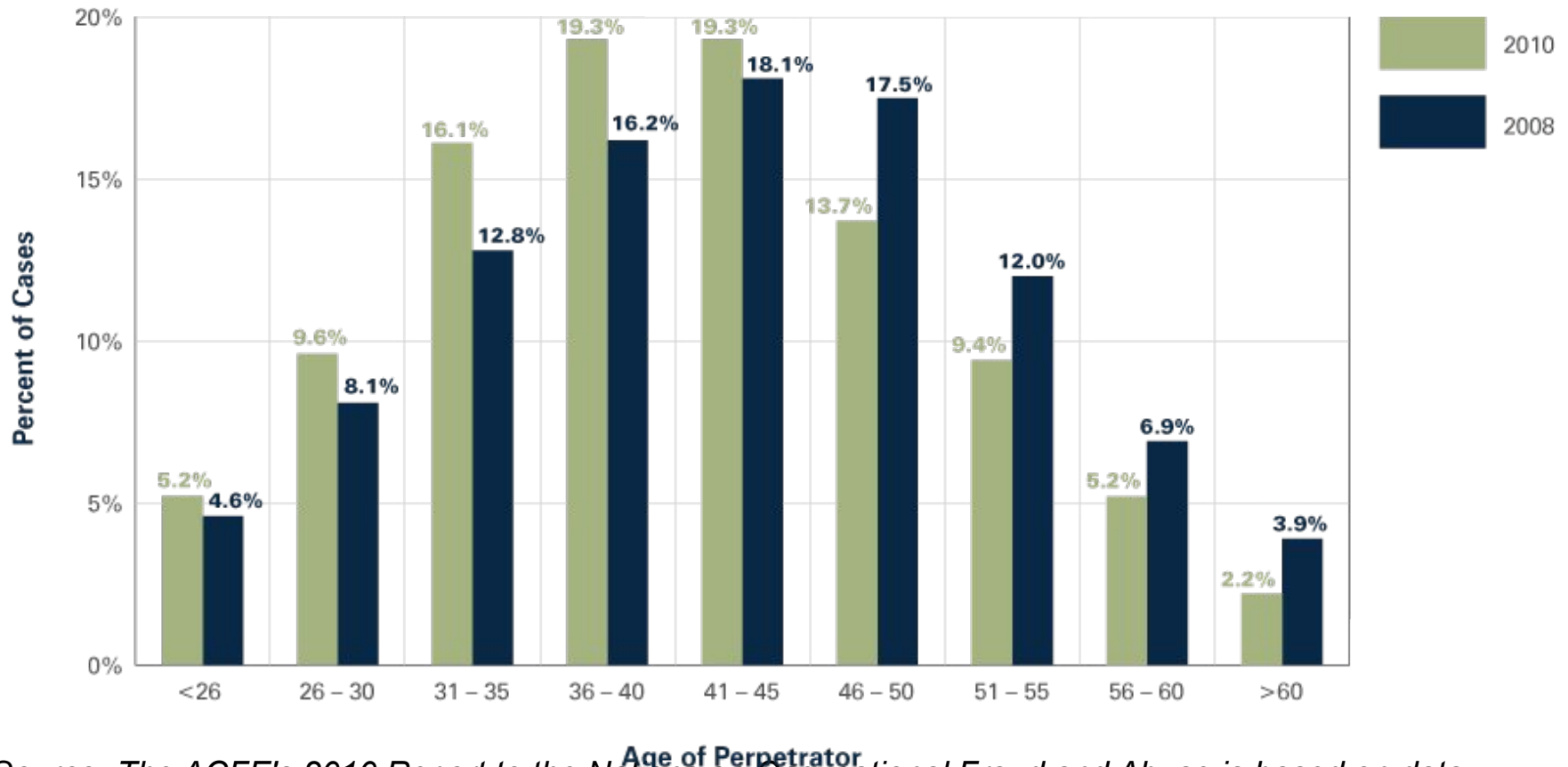
### Impact by gender



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

## Fraud: some facts

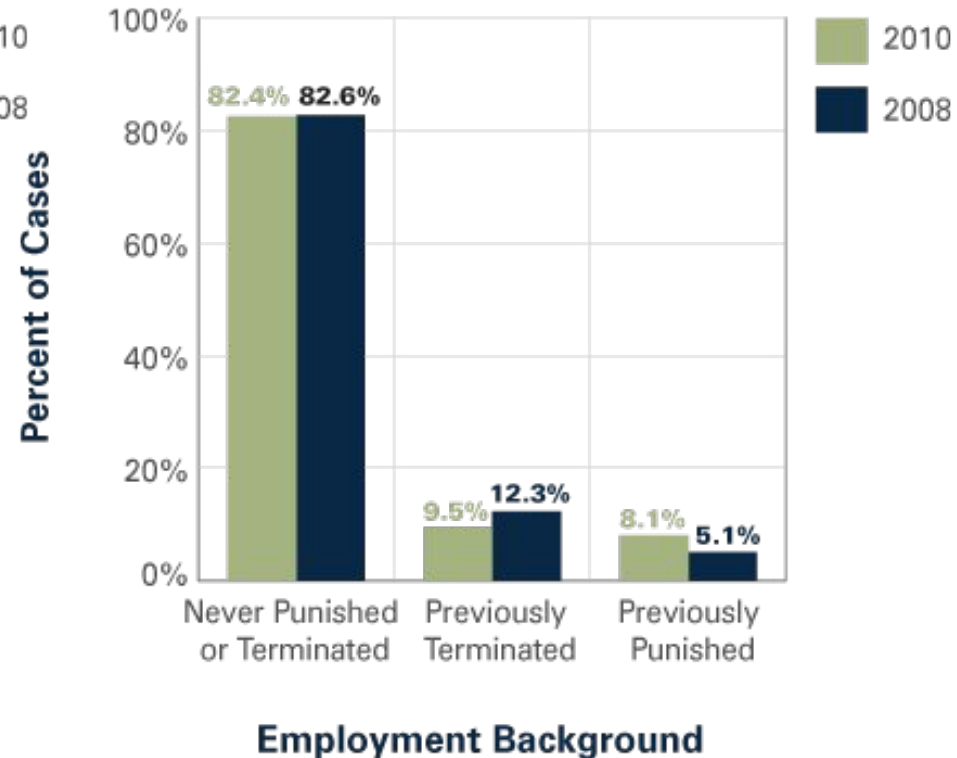
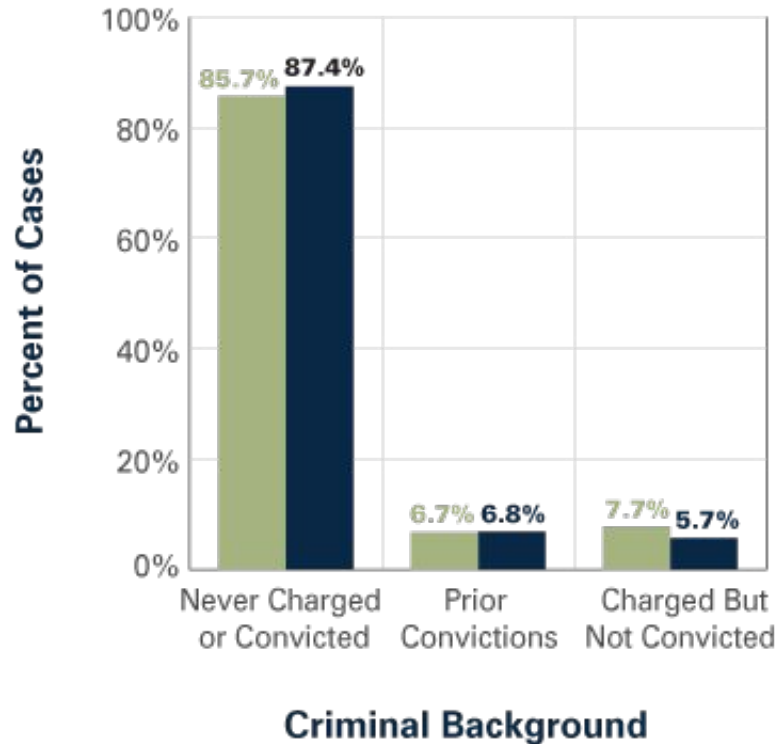
### Age of perpetrators



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

## Fraud: some facts

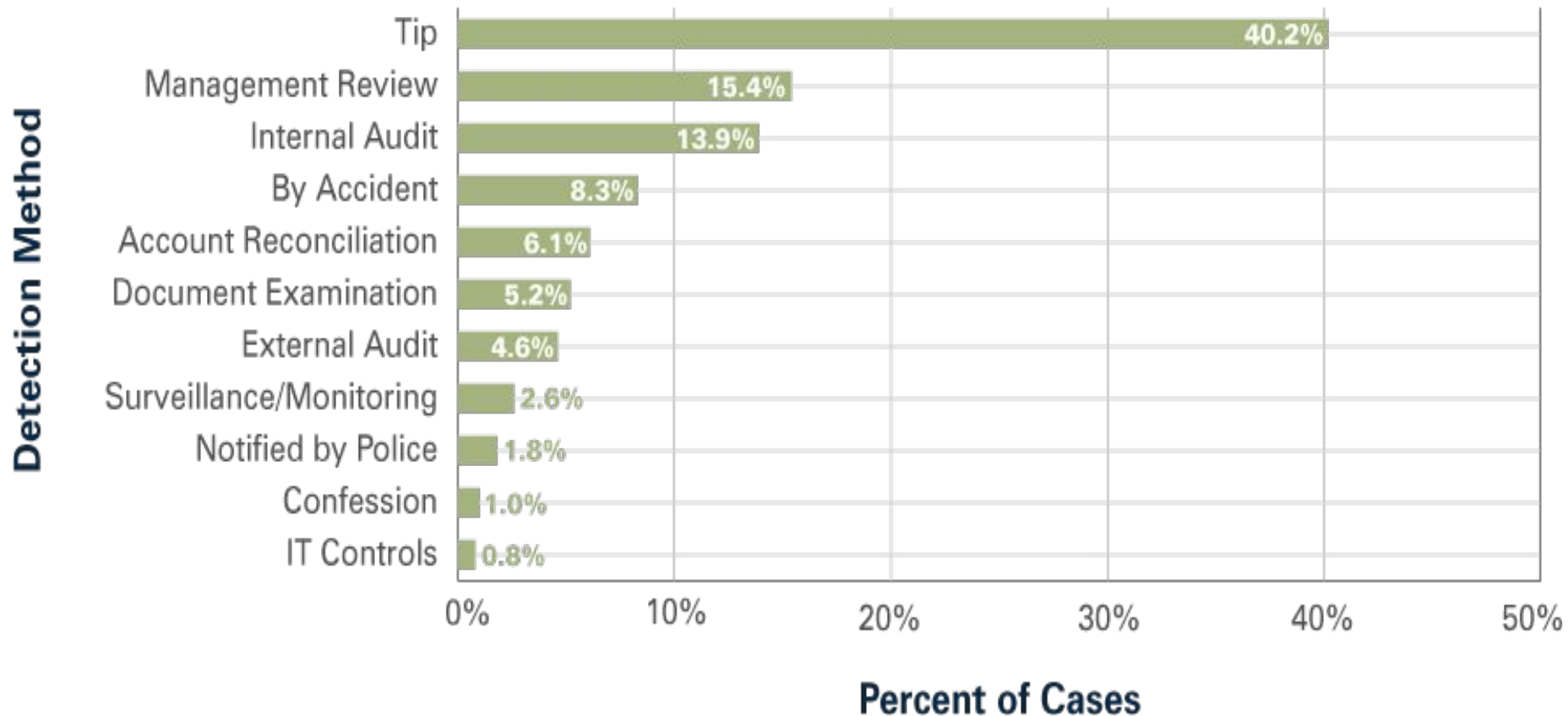
### Criminal background of perpetrator



BRON: 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

## Fraud

### How is fraud detected?

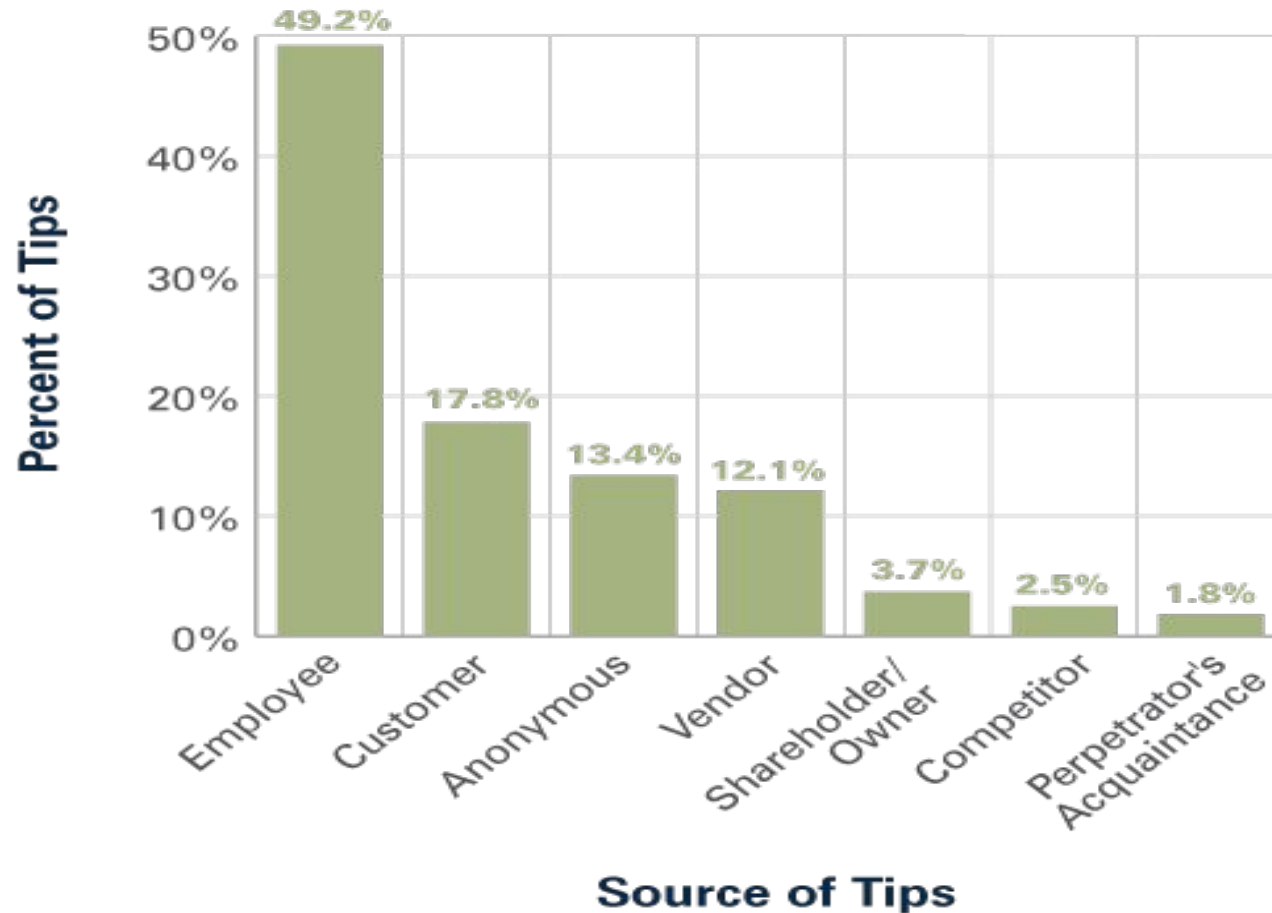


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## Fraud

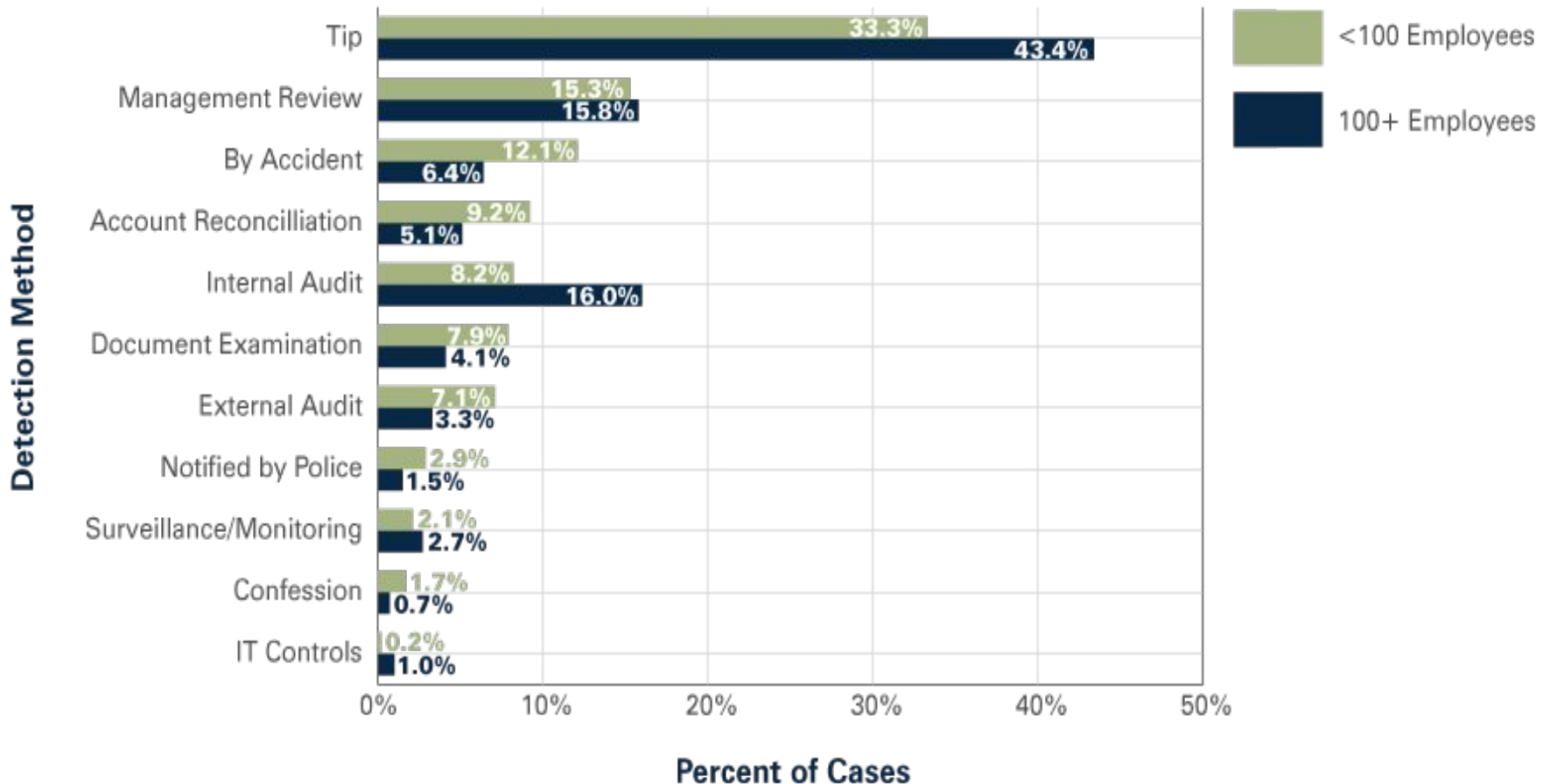
### Who is the source of tips ?



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

# Fraud

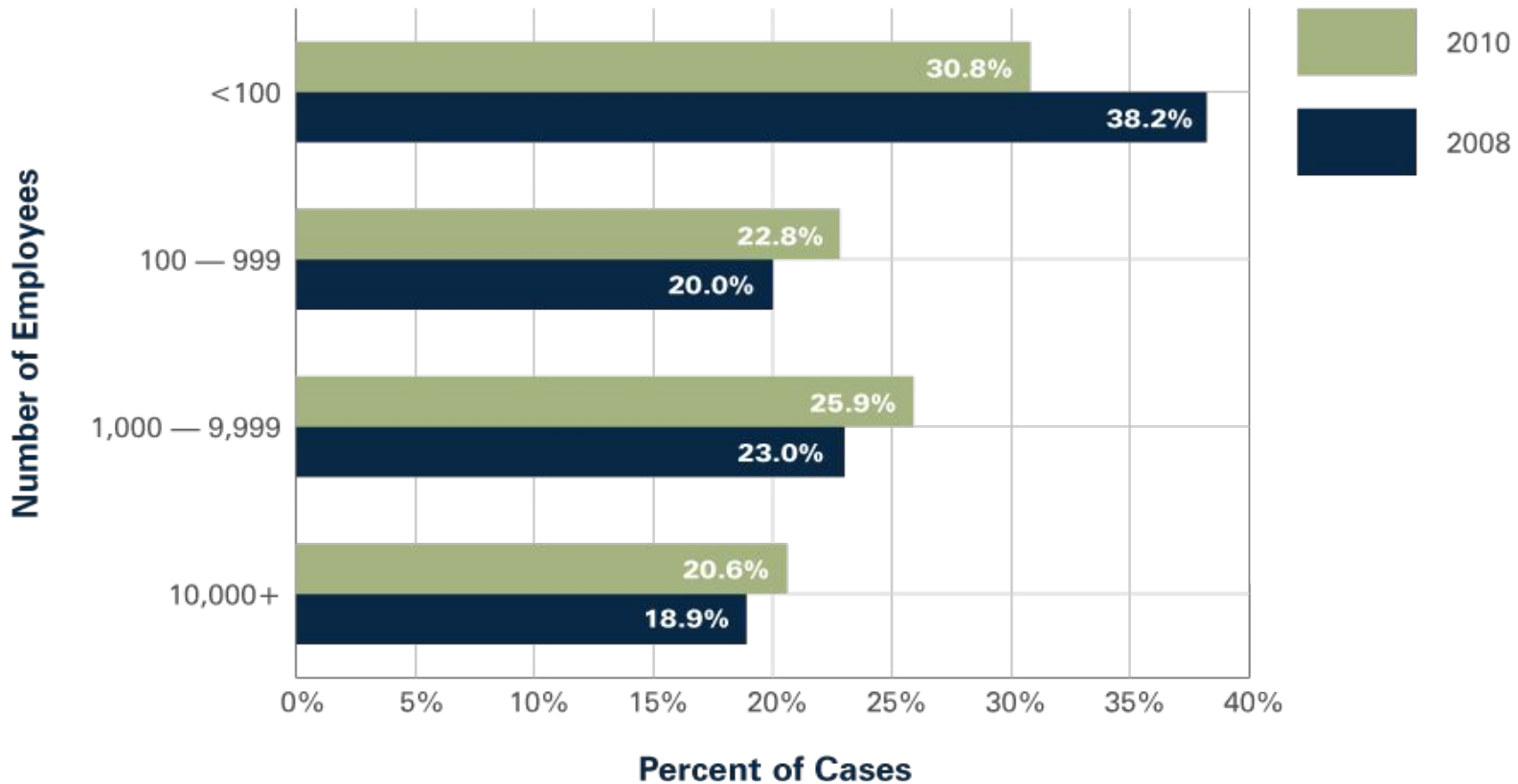
## Detection methods



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

## Fraud

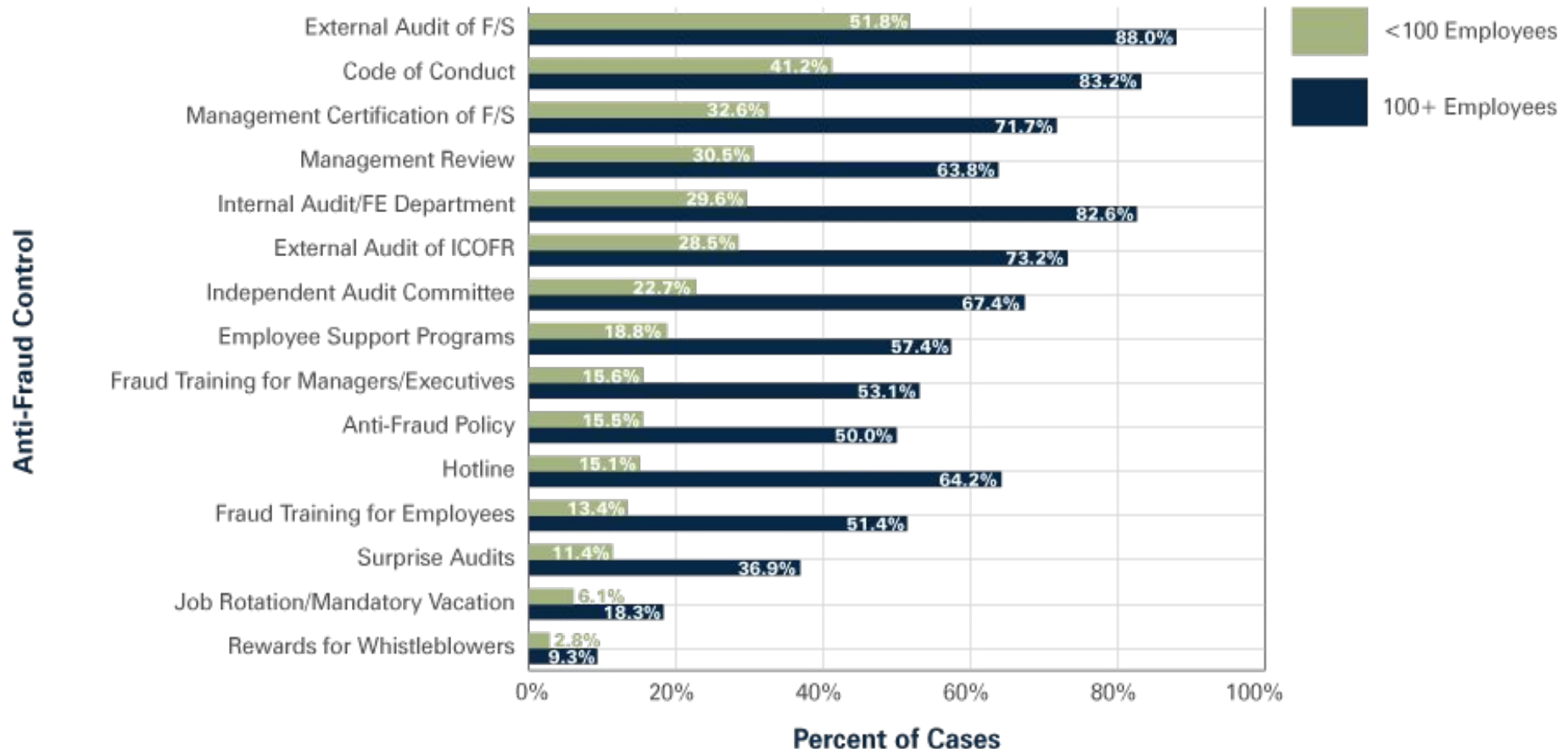
### Occurance of fraude in SME's



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

# Fraud

## Anti-fraud controls



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

# Fraud

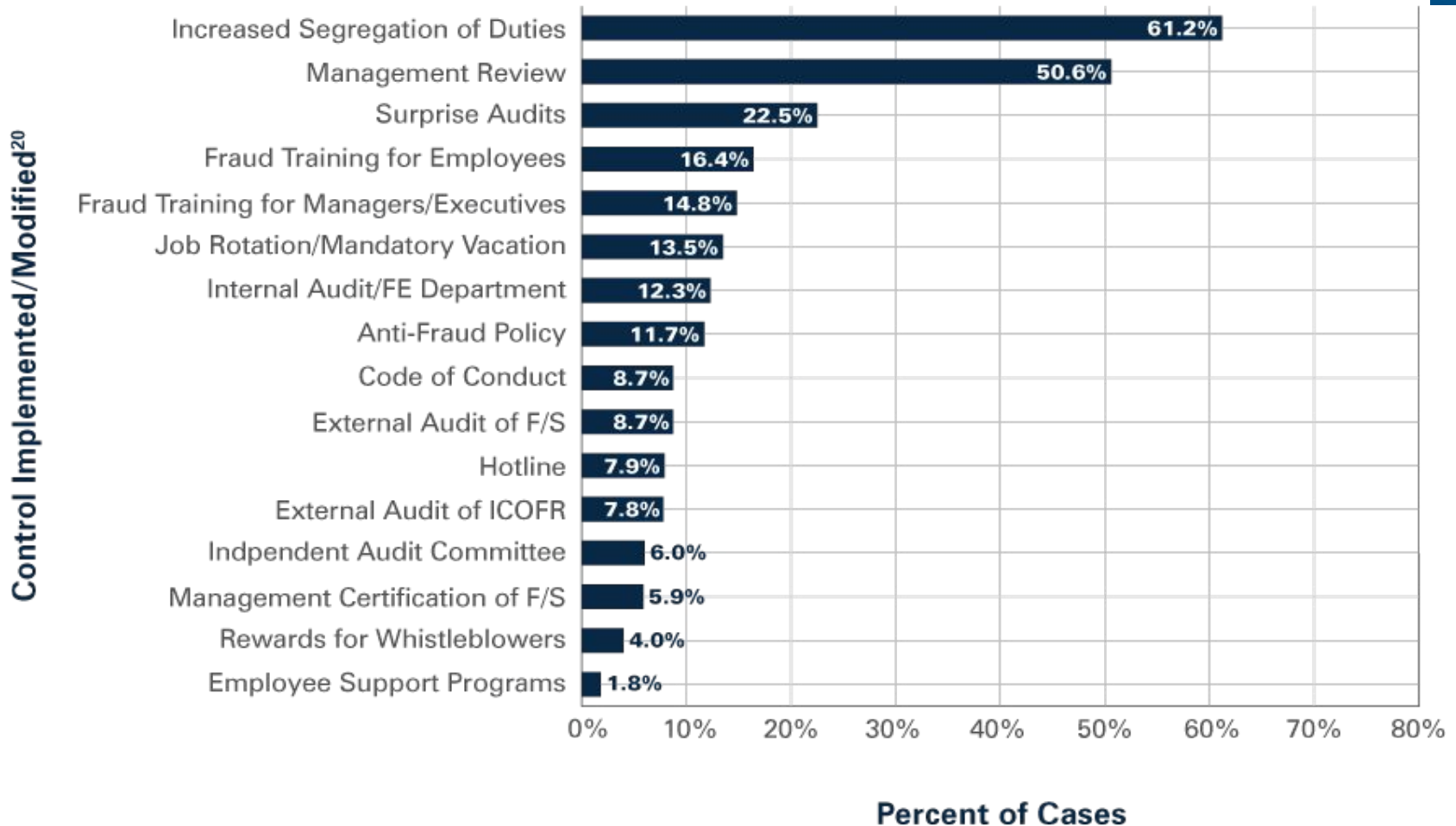
## Fraud schemes

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%

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

## Fraud

### Implemented controls after fraud detection



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