Fraud and the Internal Audit role

New course for 2013

Who should attend?

- This event is particularly targeted at internal auditors in organisations without a dedicated fraud team, as they are having to take a much more significant role in the prevention, detection and investigation of fraud.
- Newly appointed fraud specialists
- Managers needing a broader understanding of how to prevent and detect fraud

Highlights

- IIA guidance on the role of IA regarding fraud
- IIA global technology guide – fraud prevention and detection in the automated world
- New fraud risk questionnaire
- An auditor's fraud toolkit will be provided
- Guidance on the use of Benford’s law – a little known but very powerful tool
- Fraud indicators
- How to use CAAT's for fraud detection and investigation

What you will learn

- How to evaluate fraud risks
- How to think like a fraudster – the only way to spot frauds
- How IA can help to prevent fraud
- How to promote an effective fraud prevention process
- How to use data mining as a fraud prevention and detection tool
- The techniques of successful fraud investigation
- When and how IA should be involved in fraud investigation
- How to spot when someone is not telling you the truth
- The legal aspects of fraud prevention and investigation

Why you should attend

Recent surveys have revealed that many organisations do not have a formalised approach to fraud prevention, detection or investigation. Furthermore most survey respondents stated that their organisations were not taking the risk of fraud seriously enough. Staff invariably did not receive any fraud awareness training.

- Many organisations rely on internal controls to prevent and detect fraud. This is unwise. The fraudster invariably knows your controls well and how to bypass them.
Furthermore, in today’s competitive environment internal controls have often been compromised by frequent changes of management, the removal of management layers and employee empowerment.

Complacency, poorly applied procedures and the fast pace of change are the fraudster’s main allies.

Add to this the ever-increasing reliance on technology, and it is no great surprise that fraud is escalating both in frequency and magnitude – in all industry sectors and all economies.

During the current economic difficulties across the world, fraud poses an even greater threat. One recent survey revealed that 84% of the worst frauds were committed by employees, nearly half of whom were managers with more than 5 years service.

Course Outline

Day 1 – Fraud risks

Background

- Fraud explained: definitions
- Fraud statistics
- Why is fraud such a serious issue?
- The cost of fraud
- Who commits fraud?
- Trends and statistics regarding detected fraud
- Why fraud is probably being perpetrated now in your organisation.

Case histories

- 15 fraud case histories and the lessons to learn
- Societe General fraud
- BCCI fraud
- Barings bank fraud
- Land valuation fraud
- Action taken against fraudsters

Exercise 1: What are the lessons from the frauds?

Evaluating the fraud risks

- KPMG fraud risk paper
- Fraud risk management process
- Managing the business risk of fraud (IIA, CPA, CFE paper)
- 6 principles (from the paper)
  - Fraud risk management programme should be in place
  - Fraud risk exposure should be assessed
  - Prevention techniques to avoid potential fraud risk events
  - Detection techniques should be established
• A reporting process should be in place
• A coordinated approach to investigation and corrective action
• Building a picture of the major fraud risks
• Fraud risk matrix
• Fraud scenarios
• Fraud risk questionnaire
• Generic risk factors
• Specific risk
• Design of controls to prevent fraud
• Physical and logical access
• Job descriptions
• Accounting reconciliations
• Supervision
• Financial reporting

Exercise 2: Identifying the fraud risks in your organisation

The IT fraud risks

• Computer fraud paper
• Computer fraud prevention
• E-Commerce – the key fraud risks and steps to take to mitigate them
• Internet and Intranet – the fraud risks
• Preventing internet fraud paper
• IT security – how to evaluate effectiveness and influence change
• Adoption and enforcement of information security standards
• Segregation of duties - the dangers and the practical solutions
• How to detect IT fraud

Exercise 3: IT fraud risks

Identity fraud

• Identity fraud – the fastest growing fraud risk
• Identity fraud – fraud advisory panel paper
• Identity fraud examples
• How to protect your business

Exercise 4: Discussion about identity fraud

The risk of Corruption

• Corruption causes
• Corruption indicators
• Fraud red flags
• Procurement fraud risks
• The issues to look for
• Bid rigging – the issues to look for

Exercise 5 : Identifying corruption indicators

Day 2 – Developing a fraud prevention process

Fraud mitigation

• How to evaluate fraud risk mitigation
• Why controls may not protect you
• Putting yourself in the mind of the fraudster
• Tone at the top video

Exercise 6 : What are the key messages from the video?

• Examination of typical controls in place to mitigate the risks
• Risk exposures
• Identifying the vulnerable areas.

Exercise 7: Fraud mitigation – teams will be selected and given 4 fraud risks as identified earlier – they will discuss what is in place to prevent the frauds occurring and present the findings

• Discussion of the issues raised

Fraud indicators

• The top 30 fraud indicators
• How to spot the danger signals
• Fraud indicators – fraud advisory panel paper
• Developing a toolkit for identifying possible frauds
• An auditor’s fraud toolkit will be provided

Exercise 8 : The fraud indicators

Implementing a best practice fraud prevention process

• Introducing effective anti-fraud policies
• Creating a fraud consciousness loop
• Development of a fraud awareness training programme
• Communicating standards of expected behaviour / ethics
• The need for strong and consistent action when fraud is suspected.
• Electronic data and asset protection
• Fraud response plans paper
• Anti Money Laundering – issues and requirements
• Money laundering paper in the pack
• The relationship between fraud, risk and control
• The roles, responsibilities and liabilities of auditors, management, specialists and others

Exercise 9: Developing a fraud awareness training programme

Day 3 The link between fraud prevention and detection

Aiming for a cost-effective balance between prevention and detection

• Use of management check-lists
• The need to be able to think like a fraudster – to be able to prevent it
• Company policy on consequences of committing fraud
• Facilitation of whistle blowing
• Whistle blowing policy
• Pros and cons of external hot-lines
• Use of specialists to aid detection and investigation
• Preparing and implementing fraud contingency plans
• How to ensure fraud investigation is always given top priority
• Use of successful fraud investigation as a moral deterrent
• Managing the external coverage of proven fraud

Exercise 10: Fraudulent documents

The Internal audit role regarding fraud

• ECIIA paper
• Prevention and investigation
• Should detection be an IA role?
• The IIA states currently detection is not an IA role
• What should IA do to aid detection

Exercise 11: Discussion – the IA role regarding fraud

Fraud Scenarios – Exercise 12

• 3 situations will be used to focus on fraud areas – delegates have to establish the circumstances and actions to be taken
  • Investment fraud video and quiz
• Fraudulent passports
• Dubai and Oman bank frauds

Use of Computer assisted audit techniques (CAAT’s)

• ACL as a fraud investigation tool
• ACL fraud e- book
• Examples of how to use CAAT’s in fraud investigation will be shared
• Benfords Law
• Benfords law video
• Benfords and CAAT’s paper

Exercise 13 : Fraud investigation using CAAT’s

Day 4 Fraud detection and legal issues

Data mining as a fraud detection tool

• Fraud detection basics paper
• Fraud profiling – how to target the right systems
• GTAG 13 Fraud prevention and detection in the automated world
• Data mining paper
• Risk scoring
• Fraud Risk prioritisation
• How to get the information you need
• The use of Internal databases
• Demonstration of External databases
• Data Validation
• Automated fraud detection
• Example of a working model
• How to put the techniques into use in your organisation.
• Audit software – the tools available
• Practical uses of data mining and the results achievable

Exercise 14 : Determining tests and comparisons you can undertake to target the areas of risk in your organisation

The legal aspects

• The need to stay within the law
• The legal implications
• When to bring the lawyers in
• How to protect your work from disclosure – legal privilege
• How to ensure that evidence is admissible
• Search and seizure orders
• Civil V Criminal action
• Bribery Act and it’s implications for GCC businesses
• How to recover stolen assets – making sure the criminal does not profit
• How to handle disciplinary proceedings
• Employers and employees rights

**Exercise 15: Discussion – the legal issues**

**What to do when you suspect fraud**

• How to react when fraud is suspected
• How to decide who needs to be told

**Exercise 16: Typical fraud scenario – the anonymous letter**

• How to respond to anonymous letters
• Identifying misleading and malicious allegations
• How to deal with tips obtained from hotlines etc
• How to decide if you need outside help

**Day 5 – Fraud Investigation**

**Managing the investigation**

• The need for thorough planning
• Determining the objectives of the investigation
• Who should be involved – what skills do you need?
• Determining roles of security and Internal audit
• How to keep the investigation low-profile
• Research – what information can lawfully be obtained
• What information is available and can be used
• Forensic evidence and how to obtain it
• Collating information and maintaining the chain of evidence
• Covert monitoring of employees – new legislation
• Knowing when to suspend or dismiss employees

**Exercise 17: Sources of information**

**Interviewing suspects and witnesses**

• Setting the scene – choice of venue etc
• Do you know your legal authority for conducting interviews?
• Can you use deception in interviews?
• How do you avoid breaching the employees’ rights under law?
How do you avoid employee claims of breach of privacy, emotional distress, defamation of character etc

Planning the interview – do’s and don’ts
Fraud interview – the 10 steps
How to keep in control
How to tell if someone is lying

Exercise 18: Spotting the liar

The use of open questions
Interpreting body language
How to recognise when someone is lying
Recording and evaluating the conversation
How to avoid accusatory or threatening questions
The need to think like a fraudster

Exercise 19: The fraud interview (role play) – you will all have the opportunity to play the interviewer, the observer and the suspect

Communicating the results

When and how to inform top management
When to inform regulators / the police / etc
Managing external coverage
Dealing with the media / stakeholders
The use of successful fraud investigation as a moral deterrent
Rebuilding damaged relationships

Exercise 20: The results

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