

Fraud Risk Management

Completing The Loop Through Effective Forensics and Internal Audit



The Institute of
Internal Auditors

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A Short Story





AGENDA

Fraud schemes

Fraud Risk Management Framework

Audit techniques to uncover fraud

Conducting the investigations

Understanding the types of evidence

Conducting fraud interviews

Writing the forensics and investigations report

**WE FAIL TO LEARN
FROM HISTORY**



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Elevating Impact



What is Fraud

Adopted the Association of Fraud Examiners (ACFE) definition of fraud as being all those activities involving dishonesty and deception that can drain value from a business, directly or indirectly, whether or not there is personal benefit

Fraud May Include But is Not Limited To

Kickbacks
and Gifts

Cheating

Manipulation

Benefiting
from fraud

Misappropriation

Impropriety
in handling & reporting
of financial transactions

Tampering with
computer programs,
data files, operations
or media

Corrupt Act

Abuse of Office

Falsification
of Records

Dishonesty

Theft

Profiteering
on insider
knowledge

Omission

Fraudulent Act

Disclosure
of proprietary info

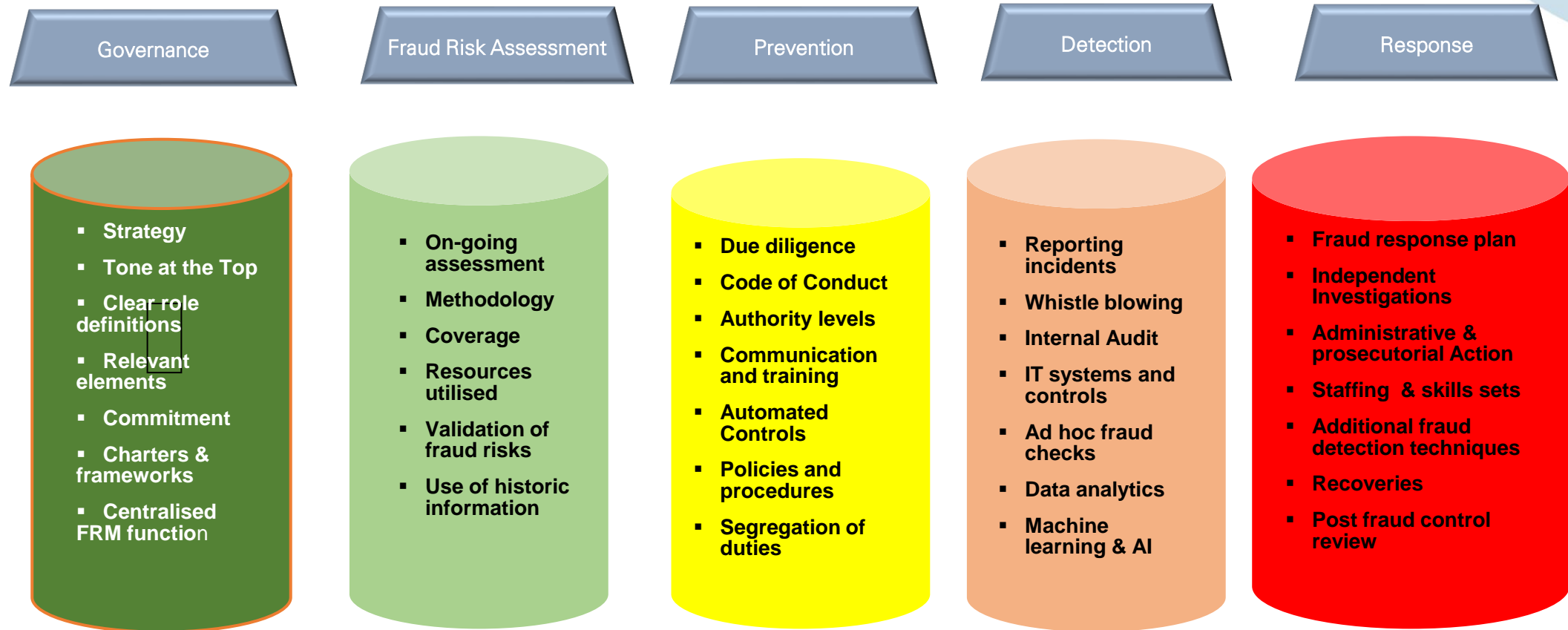
Forgery
or Alteration

Fraudulent
Financial
Reporting

Misrepresentation

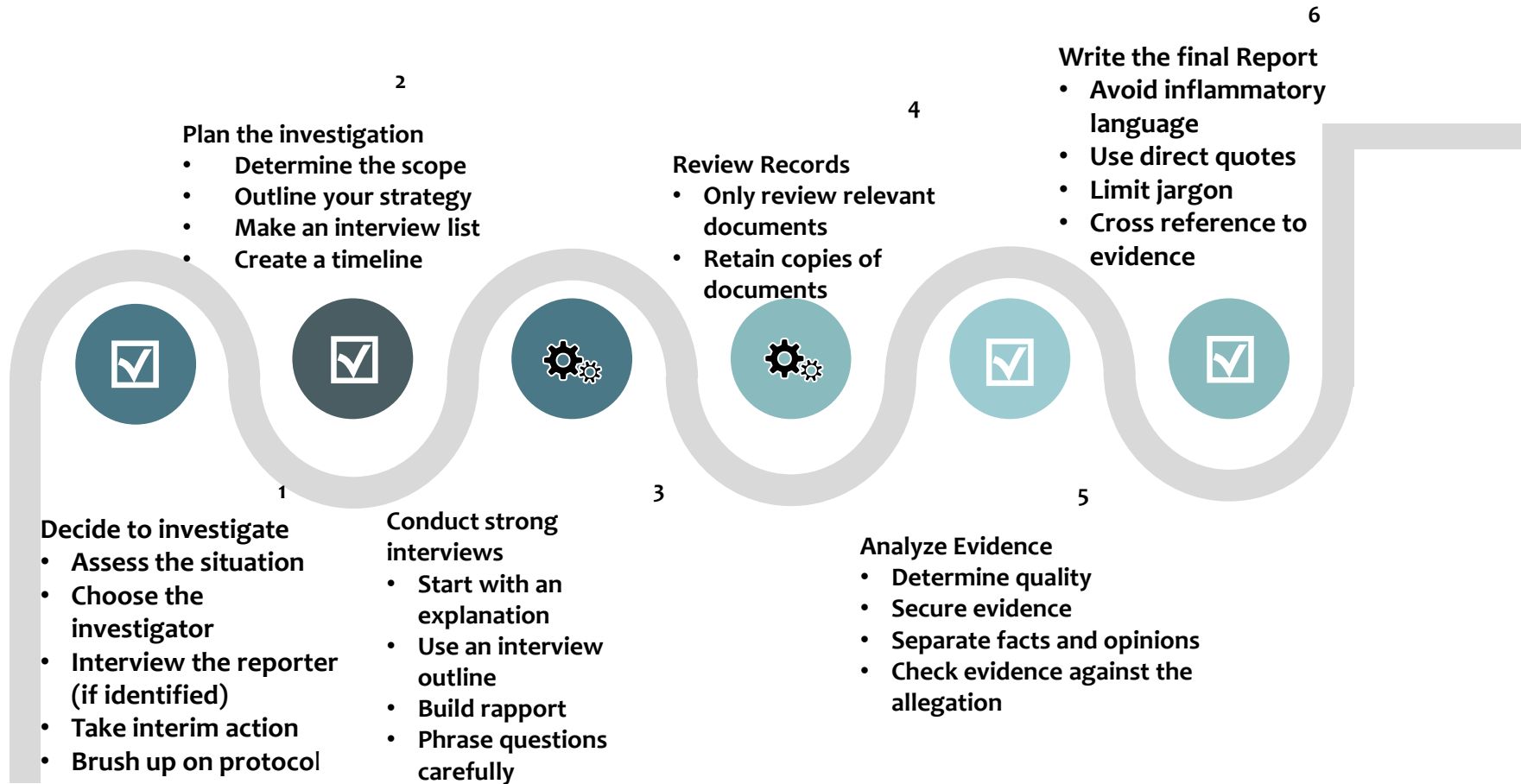
Maladministration
or Financial misconduct

Fraud Risk Management Framework





Steps in Fraud Investigations



Audit Techniques

1

Mandating the use of data analytics for fraud testing in audits for all listed entities globally

2

Using additional internal and external data and information to enable more nimble responses to external risk indicators, such as short sellers and whistleblowers

3

Using electronic confirmations for audit evidence wherever possible

4

Developing a proprietary fraud risk assessment framework for use with audit committees and those charged with governance

5

Mandating annual fraud training for all audit professionals that incorporates the experiences of EY forensics professionals

6

Requiring the use of forensic specialists in the audit on a targeted-risk basis



Types Of Evidence

Real evidence

Physical evidence, consists of material items involved in a case, objects and things that can be physically held and inspect

Usually admitted because it tends to prove or disprove an issue of fact in a trial

Must be relevant, material and authentic

Demonstrative evidence

Usually charts and diagrams, demonstrate or illustrate the testimony of a witness

It's admissible when it fairly and accurately reflects the witness's testimony

Documentary evidence

Can be from a vast number of sources from diaries, letters, contracts, newspapers, phone records, digital files, emails, texts and IMs, website data, photographs

make

There are restrictions and qualifications for using documents at trial as there is a need to sure they are authentic and trustworthy

Testimonial evidence

A witness giving testimony under oath about the facts of the case

Conducting fraud interviews

Begin by establishing a baseline by asking simple, easy-to-answer questions that the subject is likely to answer truthfully, such as: How long have you worked at the company?

Ask open-ended questions to get the subject to talk, such as: Tell me about...

Avoid loaded questions

Avoid questions at the beginning that can be answered with a yes or no

Do not ask accusatory questions that indicate you think the subject is guilty

Ask simple questions that address one fact at a time, rather than combining more than one idea into the same question

Do not ask leading questions that prompt for the answer you want

Ask yes or no questions at the end of the interview to pin down specific facts that were revealed during the interview



Writing The Forensics And Investigations Report



Accuracy



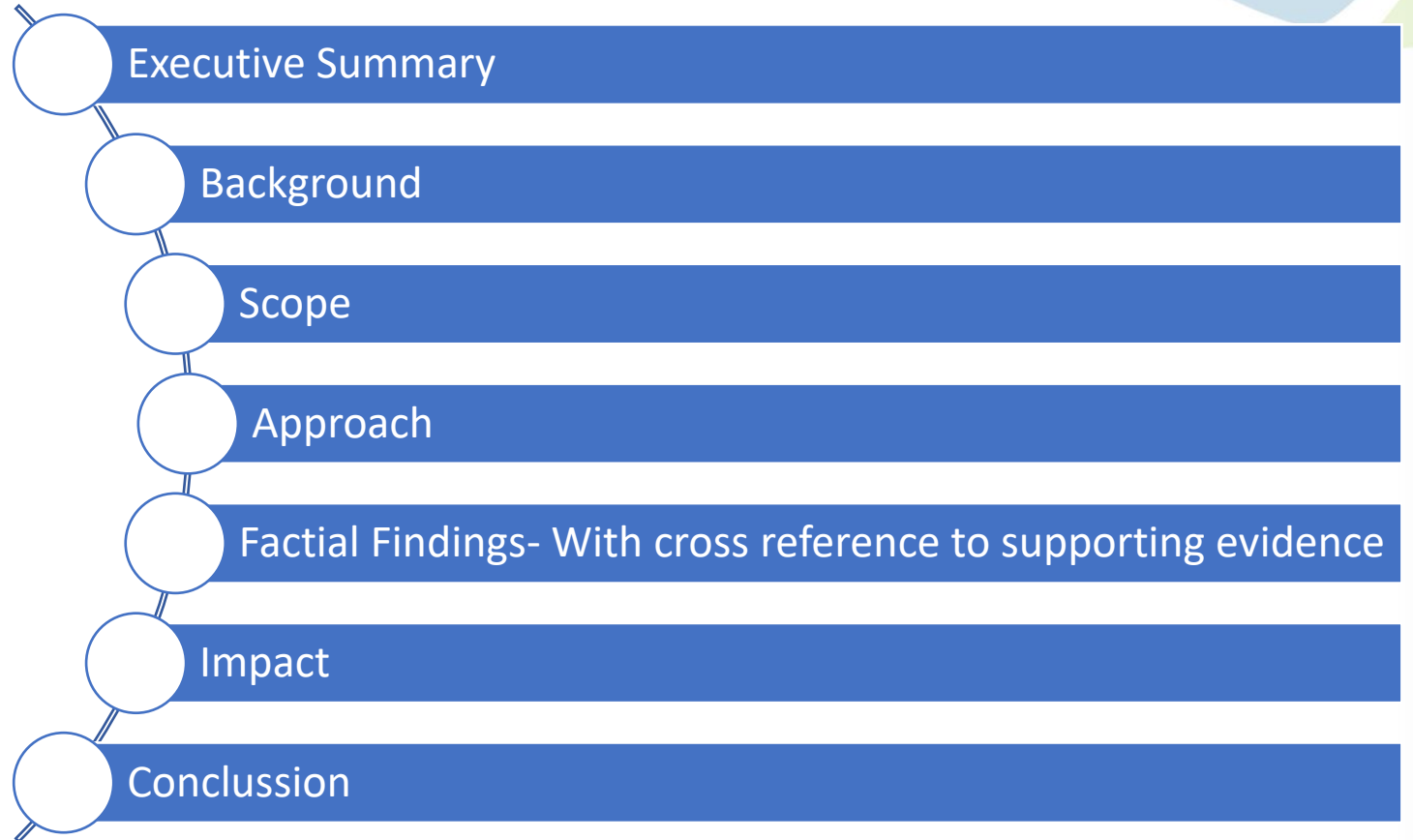
Clarity



Impartiality
and relevance



Timeliness



***Sometimes trust
just isn't enough-***

Thou shalt not be blinded by the beauty of a theoretical fraud risk management model; aim to obtain practical understanding of the fraud risks



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