

Fraud and the Internal Audit role

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
- Action taken against fraudsters

Exercise 1 : What are the lessons from the frauds?

Evaluating the fraud risks

- **Tone at the top video**
- E & Y fraud risk survey 2013
- 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
- Supplier and outsourcing fraud
- Fraud risk matrix
- Fraud scenarios
- Fraud risk register example
- 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

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 4 : Identifying corruption indicators

Fraud mitigation

- How to evaluate fraud risk mitigation
- Why controls may not protect you
- Putting yourself in the mind of the fraudster
- Examination of typical controls in place to mitigate the risks
- Risk exposures
- Identifying the vulnerable areas.

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 5 : The fraud indicators

Implementing a best practice fraud prevention process

- **CIMA fraud risk management guidance**
- 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 6 : Developing a fraud awareness training programme

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 7 : Discussion – the IA role regarding fraud

Day 2 Fraud detection and investigation

Use of Computer assisted audit techniques (CAAT’s)

- Data mining and IA
- ACL as a fraud investigation tool
- Examples of how to use CAAT’s in fraud detection will be shared
- Benfords Law
- 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 8 : 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
- Gifts and hospitality guidance
- How to recover stolen assets – making sure the criminal does not profit
- How to handle disciplinary proceedings
- Employers and employees rights

Exercise 9: 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 10: 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

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
- Conducting fraud investigations guidance
- 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
- Fraud investigation report template will be provided

Exercise 11 : 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?
- 47 tips for fraud interviews
- 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
- 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 12 : The fraud interview (role play) – you will all have the opportunity to play the interviewer, the observer and the suspect