

How to detect fraud and corruption

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Agenda

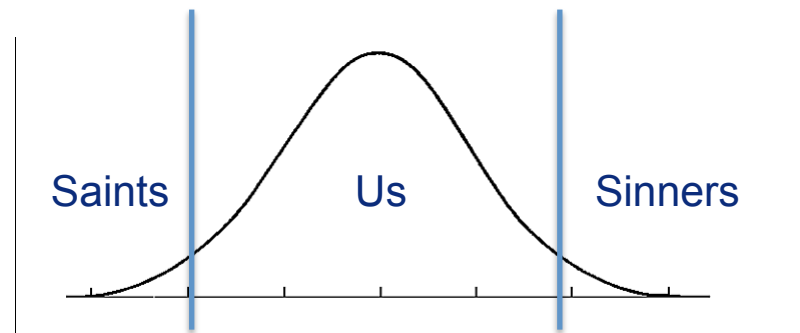
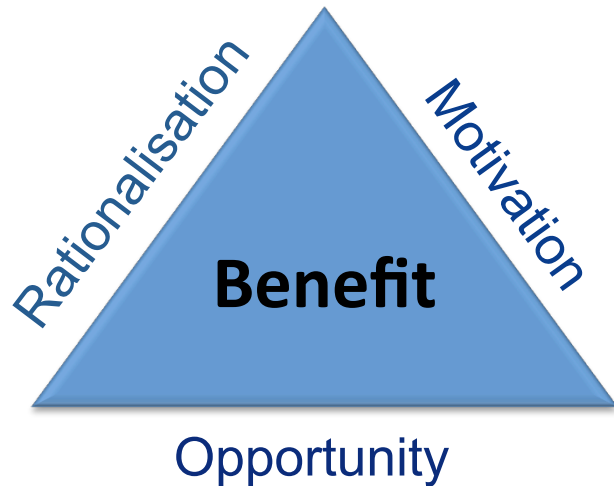


- Can we mitigate all fraud and corruption?
- How to mitigate fraud and corruption
- How to detect unmitigated fraud and corruption
- Summary and questions



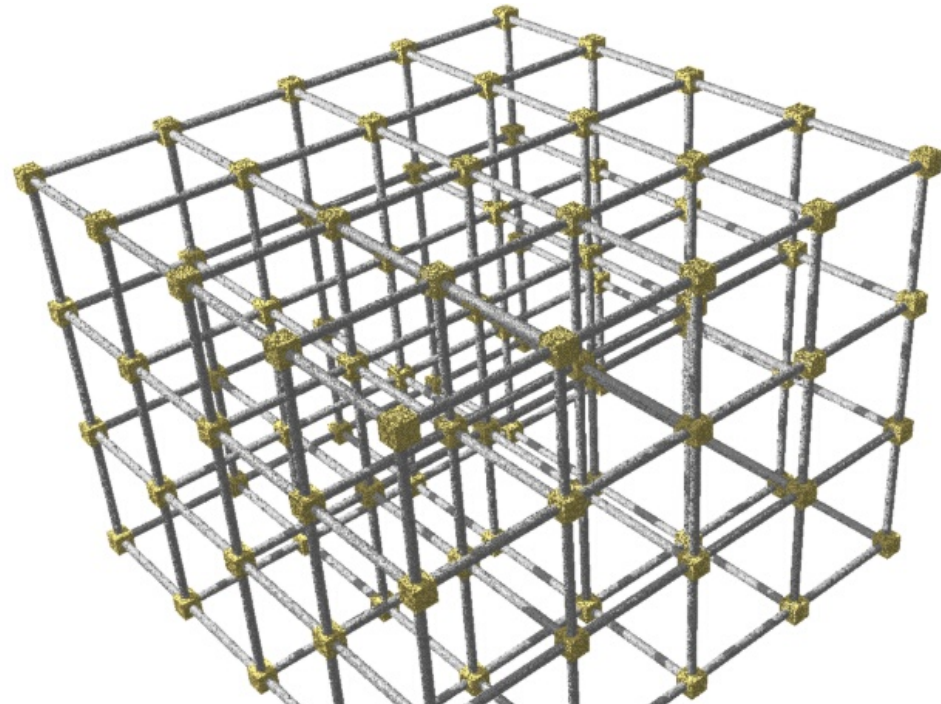
We allow fraud to occur!

- Survey data tells us...
- Bell curve of intent
- Fraud triangle
- Culture



A fraud and corruption framework

- *A planned approach to preventing, detecting and responding to fraud and corruption to mitigate the risks to an acceptable level*
- Planning
- Prevention
- Detection
- Response



The importance of detection



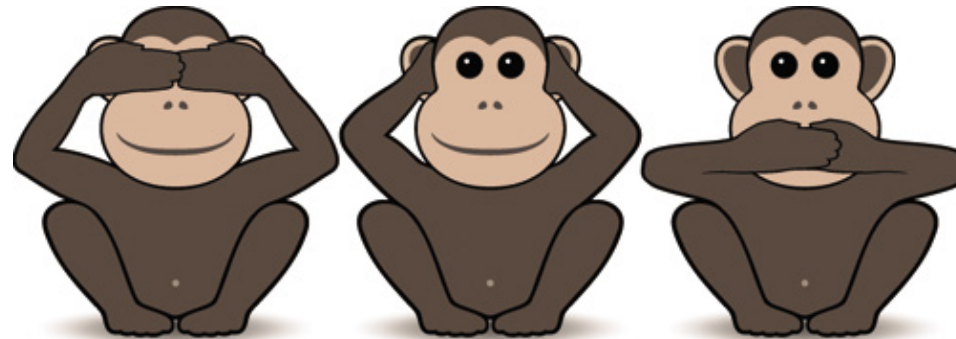
How important is **Detection** in a planned approach to fraud and corruption mitigation?

Important

But not as important as proper **Planning** and **Prevention**

Detection techniques

- Watching
 - Only useful if people report suspicious activity
- Listening
 - Only useful if the correct person hears what is said
- Doing
 - Can be reactive or proactive
 - Manual, project, and automated review of business activity



Detection program

- Internal and external auditor's role
- Avenues for reporting suspicions
 - Internal reporting
 - Alternate reporting
- Whistleblower program
- Transactional review
 - Post transaction review
 - Data analytics



Auditor's role



Internal auditors

- Objective and independent to management
- Professional skepticism
- Forensic accounting skills
- Beyond reproach

External auditors

- As above, plus...
- Adequate experienced staff
- Relevant industry skill set



Red flags - General

- Circumstance or behavioural changes
- Employee lifestyle changes or living beyond means
- Significant personal debt and/or credit problems
- Large leave balances and reluctance to take leave
- Poor attitude towards controls, policies, external parties (autocratic style), overly generous
- Lack of, or delays in providing documentation
- Lack of segregation of duties



Red flags - Finance

- Unusual transactions (date, time, amount, party)
- Unsupported or unauthorised transactions
- Reversals
- Suspense and transit accounts
- Significantly under or over stated account balances
- Transactions not recorded in a timely manner
- Vague or missing descriptions
- Alterations, corrections, handwriting
- Delayed or qualified audit reports



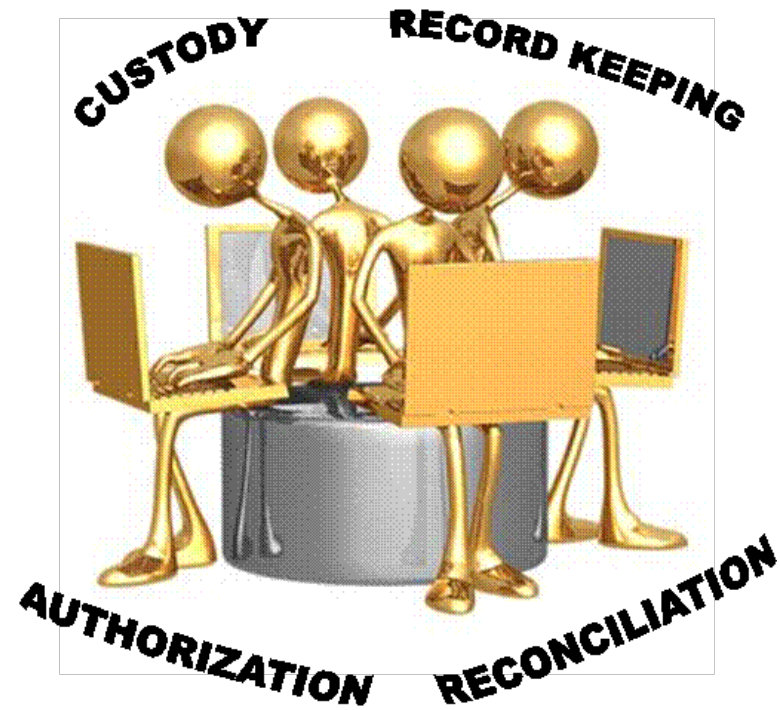
Reporting channels

- Line management reporting ✓
 - Alternate internal reporting (eg. IA and HR) ✓
 - Third party alternate reporting (hotline) ✓
 - Regulators and law enforcement ?
 - Traditional and social media ✗
-
- Whistleblower Protection Program
 - Policy
 - Protection Officer and resources
 - Investigation Officer



Transactional review

- Source documents and other records
- Segregation of duties
- Significance of roles
- Authority to speak up
- Culture



Data analytics



- Data analytics is a process of:
 - Obtaining
 - Inspecting
 - Cleaning
 - Transforming
 - Modelling data

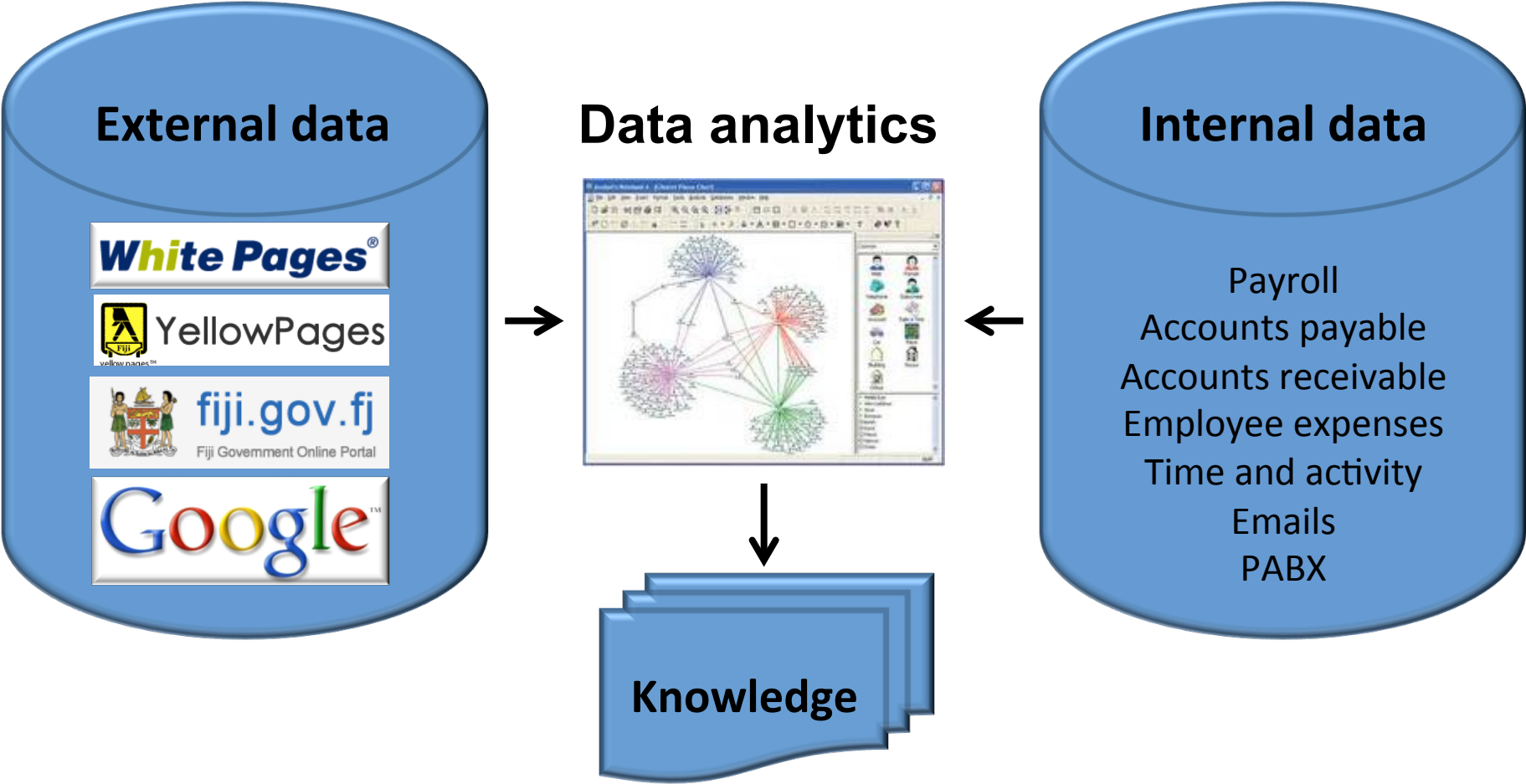
...with the goal of highlighting useful information, suggesting conclusions, and supporting decision making.

How data analytics assists



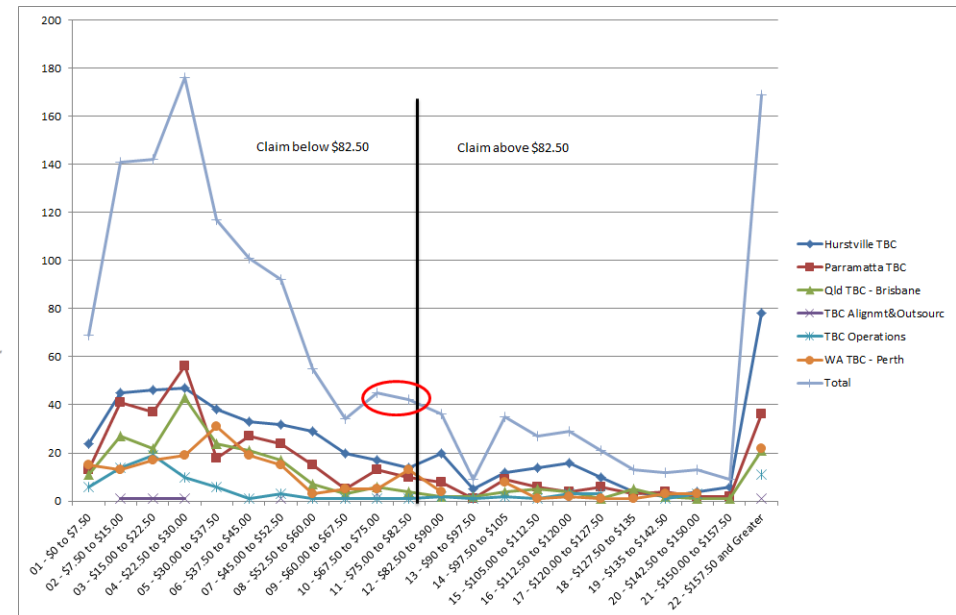
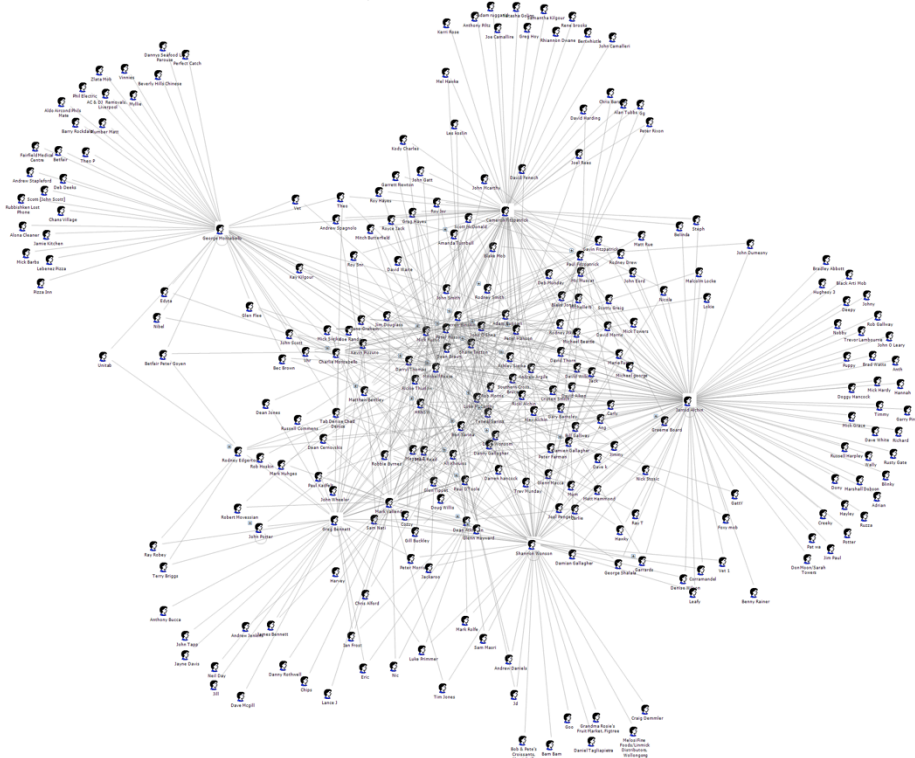
- Many Internal Audit tasks can be performed more efficiently and with greater rigour through the use of data analytics
- For example:
 - Selecting high risk transactions for manual auditing
 - Creating a system of ‘Continuous Monitoring’ and sending automated alerts for follow up investigation
 - Identifying anomalies that could not be found using traditional auditing or investigative techniques

Examples of data inputs



Types of outputs

- Norms, patterns, outliers, and anomalies, *which are then reported through* timelines, lists, tables, charts, relationships, and maps.



Summary

- Detection is a backstop when prevention has failed
- No one detection technique will uncover all fraud
- Your people are your best detection technique
- Empower your people to speak up
- Your organisation's culture will largely determine your success



Questions



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