



Fraud Bulletin #2 – Fraud Detection

Who are the perpetrators of fraud?

It could be anyone, anywhere, at any time. Although you don't want to think a colleague, good friend or family member could commit a fraud, it is possible.

What should you look for?

As well all know, red flags are a warning of danger or a problem. Behavioural red flags are no exception. As noted in the Association of Certified Fraud Examiners (ACFE) Fraud Report to the Nations (2018) in 85 percent of fraud cases, fraudsters displayed at least one behavioural red flag. And in 50 percent of fraud cases, they exhibited multiple red flags. Red flags do not indicate guilt or innocence but provide a possible warning sign of fraud.

Top 6 Red Flags since 2008 according to the ACFE Fraud Report to the Nations (2018)

- 1) Living beyond means
- 2) Financial difficulties
- 3) Unusually close association with customers or vendors
- 4) Control issues such as unwillingness to share duties
- 5) Personal/family problems
- 6) Wheeler dealer attitude

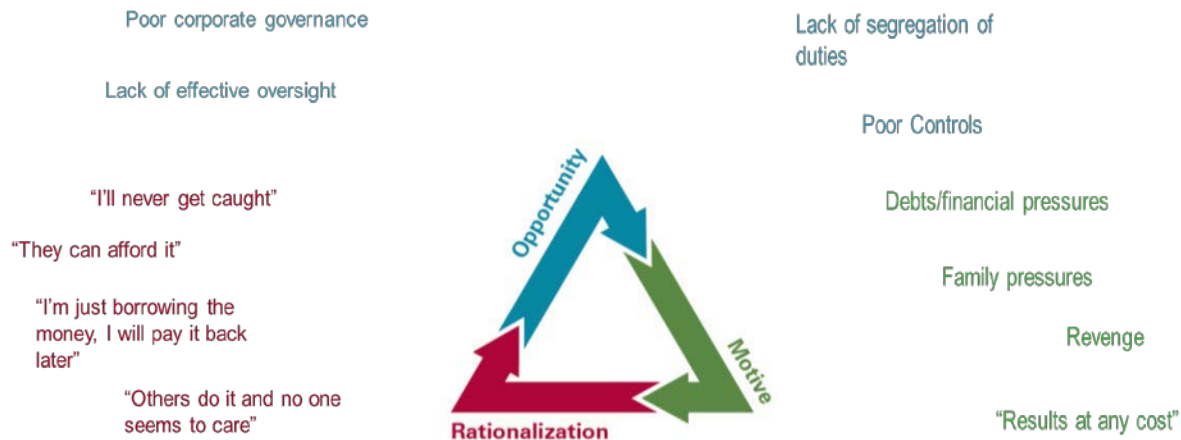
Examples of other red flags:

- Internal controls that are not enforced
- Management override of controls
- Discrepancies in accounting records and unexplained items on reconciliations
- Missing or altered documents
- Inconsistent, vague or implausible responses arising from inquiries
- Missing inventory or physical assets

Fraud Triangle

Fraud happens when three things line up together – motive, rationalization and opportunity. As demonstrated by the Fraud Triangle below, if someone has the motive to commit a fraud, can rationalize committing a fraud and the opportunity to commit a fraud presents itself, it is more likely they will commit a fraud.

The Fraud Triangle



The **green side** represents the motive that the perpetrator of fraud may have. Examples are financial pressures, whether huge debt, or family pressures. Nearly half of the frauds committed in the past three years were because of addiction.

The **red side** represents the rationalization for the fraud or rather the moral compass of a person. There is an old rule that states:

- 20% of people will always do the right thing
- 60% of people will apply situational ethics
- 20% will actively look to find ways to commit fraud

The **blue side** represents the opportunity for a perpetrator to commit fraud. The perfect opportunity exists when the environment is missing the following:

- Lack of segregation of duties
- Lack of accountability
- No reconciliations – such as reconciling bank accounts or financial statements
- No second set of eyes
- Little to no management oversight
- Poor corporate governance



What to do if you suspect a fraud

You can report a suspected fraud to:

- Your supervisor, director, chair or dean
- Any member of senior administration
- Internal Audit Services

Or you can contact the University's Whistleblower Hotline, ConfidenceLine:

Toll-free at 1-800-661-9675 or online at MacEwan.ConfidenceLine.net

See the IAS website for more information.

<https://www.macewan.ca/wcm/ExecutiveandGovernance/OfficeofGeneralCounsel/InternalAuditServices/index.htm>

**Stay tuned for next week's fraud bulletin about fraud prevention,
including tips to keep you safe from fraudsters.**