

# FRAUD

## Prevention and Education

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# Two Global Governing Bodies on Fraud

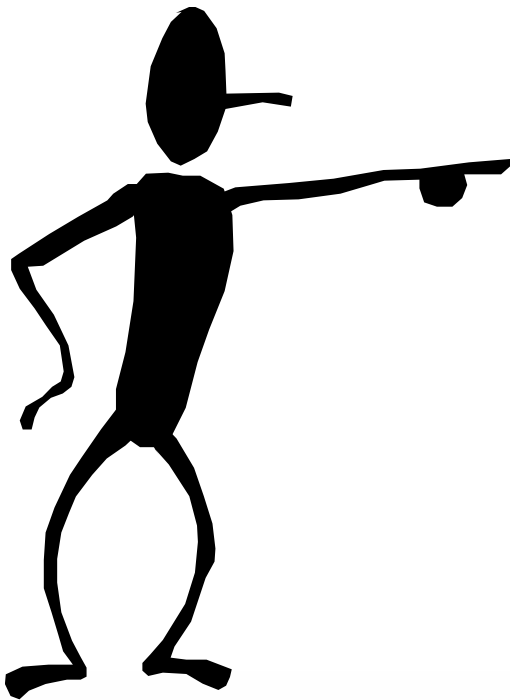
## **Association of Certified Fraud Examiners (ACFE)**

The ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education.

## **Institute of Internal Auditors (IIA)**

The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

# Defining Fraud



- Crime
  - Gain
- Misrepresentation
  - Concealment
  - Dishonesty
- Employee Benefit
  - Theft
  - Misuse
- Misapplication
- Personal Gain

Fraud is **not** an error that someone made or something that accidentally occurred.

# Three Primary Types of Fraud

Asset Misappropriation	Corruption	Financial Statement Fraud
<ul style="list-style-type: none"> <li>Employee steals or misuses resources</li> <li>Examples: <i>Theft of cash, inflated expense reports, theft of assets, inventory</i></li> </ul>	<ul style="list-style-type: none"> <li>Employee misuses influence in business transactions and violates duty to employer to obtain either a direct or indirect benefit</li> <li>Examples: <i>conflicts of interest, bribery</i></li> </ul>	<ul style="list-style-type: none"> <li>Employee intentionally causes misstatement or omission of material information in the organization's financial statements</li> <li>Examples: <i>recording fictitious revenues, understating expenses</i></li> </ul>

**Note:** Fraud can also be perpetrated by externals to the organization.

## Examples of Fraud

- Stealing money or inventory
- Claiming overtime for hours not worked
  - Filing fraudulent expense reports
- Giving unauthorized discounts on company merchandise or services
  - Adding ghost employees to the payroll
    - Skimming cash receipts
    - Falsifying voids and refunds
  - Tampering with company cheques
    - Overstating expenses

# What is Social Engineering Fraud?

Social engineering is the use of deception to manipulate individuals into divulging confidential or personal information that may be used for fraudulent purposes.

Con artists and scammers have existed for thousands of years so the concept of Social Engineering is not new.

## What is new?

The introduction of technology and that you can be a target from someone *anywhere* in the world.

# How Do You Protect Yourself?



1. Be skeptical

2. Be aware of your online presence



3. Inspect the link (look for the padlock symbol)

4. Don't click the link. Try to find the website yourself and make sure the padlock symbol is there.

5. Be smart with your passwords

6. Keep your software updated



## Fraud is not a Victimless Crime

- Financial loss
- Internal and external reputation damage
- Employee morale and lost productivity
- Damaged credit
- Increased audit costs
- Increased legal costs





# The Fraud Triangle

Poor corporate governance

Lack of segregation of  
duties

Lack of effective oversight

Poor Controls

Opportunity

Debts/financial pressures

“I’ll never get caught”

Family pressures

“They can afford it”

Motive

“I’m just borrowing the  
money, I will pay it back  
later”

Rationalization

Revenge

“Others do it and no one  
seems to care”

“Results at any cost”



# The Perfect Opportunity

- Lack of Segregation of Duties
- Lack of accountability
- No reconciliations
- No second set of eyes
- Poor management oversight
- Poor corporate governance
- = WEAK INTERNAL CONTROL ENVIRONMENT



# Association of Certified Fraud Examiners 2016 Global Report to the Nations

- Based on 7,497 survey responses
- Over 1/3 of respondents were fraud examiners, and another 1/4 were internal auditors
- Median loss per case was \$202,000
- \$8.5 billion in total losses reported
- Participating Certified Fraud Examiners estimated that the typical organization loses **5% of revenues** in a given year to fraud

# Fraud Prevention

- Leadership and Governance
  - Code of Conduct
  - Internal Controls
  - Segregation of Duties
- Fraud Prevention Checkups
  - Targeted training
- Awareness of “Red Flags”
  - Being proactive
- Whistleblower/ Hotlines

# Internal Controls

Good internal controls should be able to provide reasonable assurance—**but not absolute assurance**, to the university's senior management and Board of Governors regarding the achievement of the university's objectives relating to operations, reporting, and compliance.

Internal controls need to be adaptable to the university and the unique world of academia.

It is not merely about policy and procedure manuals, systems, and forms, but about *people* and the actions they take at every level of the university to affect internal control.

# Internal Controls

## Hard controls:

- Organizational structure
- Assignment of authority
- Responsibility
- Segregation of Duties
- Human resources policies

## Soft controls:

- Morale
- Integrity
- Ethical climate
- Empowerment
- Competencies
- Openness

## What can following internal controls do?

- Increase revenue
- Save money
- Prevent accidents
- Deter fraud
- Detect problems
- Correct errors
- Protect people and property

**One key thing to remember:**  
Internal controls are everyone's responsibility.

## Segregation of Duties

- Key control
- Involves separating three main functions and having them conducted by different employees:
  1. Having custody of assets
  2. Being able to authorize the use of assets
  3. Recordkeeping of assets
- Serves two key purposes:
  - Oversight and review to catch errors
  - Prevent fraud or theft

# Fraud Detection

A red flag is a warning of danger or a problem.

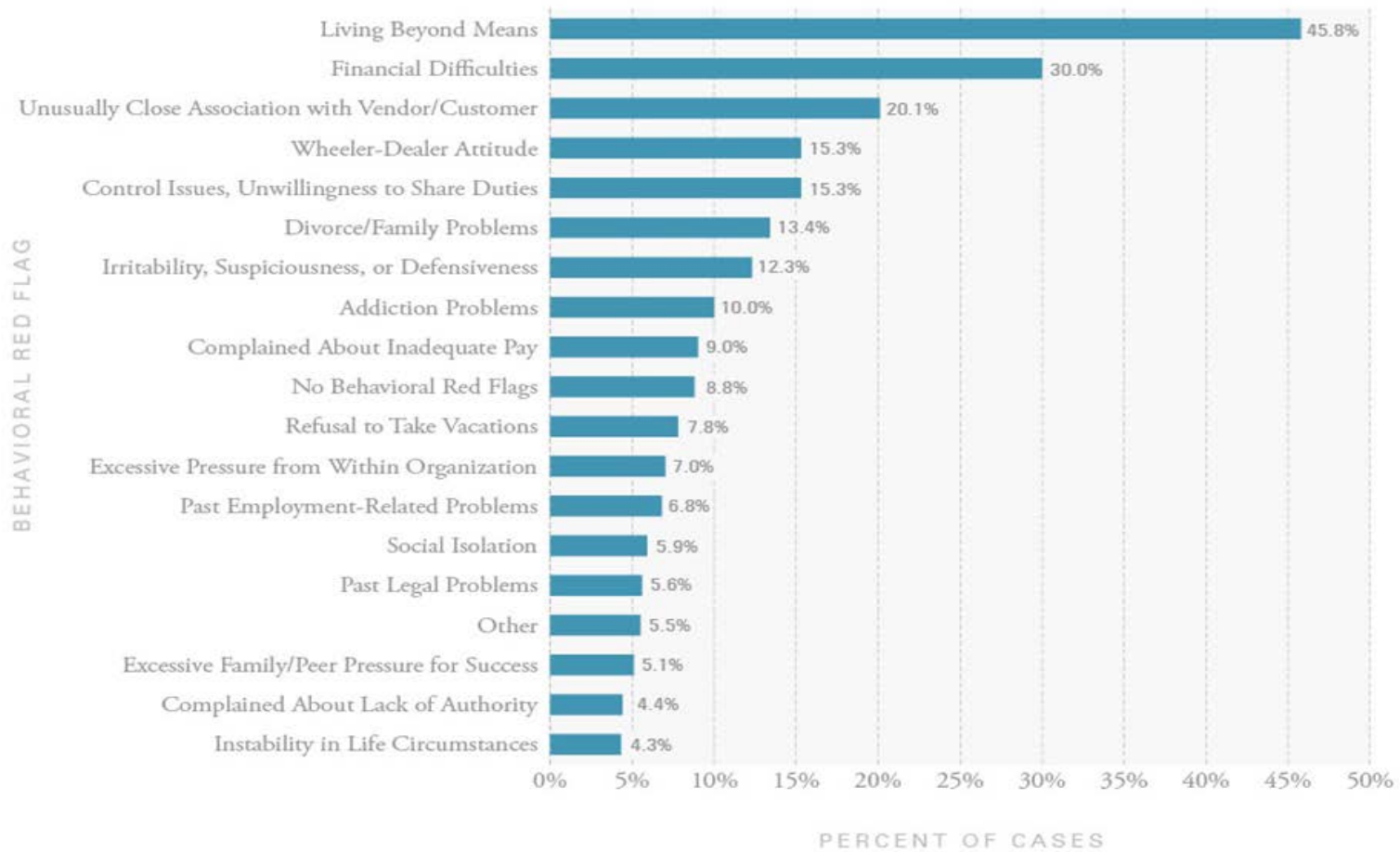


- Living beyond their means
- Financial difficulties
- Control issues, unwilling to share duties
- Addiction problems
- Unwilling to take vacation
- Excessive pressure from the organization
- Irritability, suspiciousness, defensiveness
- Instability in life circumstances

Remember that Red Flags do not indicate guilt or innocence, but merely provide **possible warning signs** of fraud.



Figure 94: Behavioral Red Flags Displayed by Perpetrators



# Detection Method by Region

**Figure 30:** Detection Method by Region—Canada

Detection Method	Percent of Cases
Tip	32.6%
Management Review	20.9%
Internal Audit	16.3%
Other	9.3%
By Accident	7.0%
Account Reconciliation	3.5%
Document Examination	3.5%
External Audit	2.3%
Notified by Law Enforcement	2.3%
IT Controls	1.2%
Confession	1.2%
Surveillance/Monitoring	0.0%

## What to do if you suspect a fraud?

You can report a suspected fraud to:

- Your supervisor, Director, Chair or Dean
  - Internal Audit Services
- Any member of senior administration

Or you can use the University's Whistleblower Hotline  
ConfidenceLine

Toll-free at 1-800-661-9675 or contact online at  
[MacEwan.ConfidenceLine.net](http://MacEwan.ConfidenceLine.net)

# Be Aware!

## There are always scams targeting Canadians

- Phishing
- Spearphishing
- Catphishing



- CRA
- Shopping online
- Social Media influencers
- Fake Lottery

# Questions



**Please feel free to contact Internal Audit Services**