

Fraud Prevention: Don't be the next victim

part of the Forging Ahead Webinar Series



ASHFORDS
AUDIT AND ASSURANCE

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Session Outline

Current State of Fraud

1. Impact of Fraud on Business
2. Fraud Triangle
3. Profiling of a fraudster - 2020 Global Study on Occupational Fraud and Abuse
4. Impact of the COVID-19 Pandemic on Fraud
5. Legislation

Our Experience

6. Case Studies
7. Lessons from our experience with fraud

Fraud Solutions

8. Tools to Manage Fraud Risk and Detect Fraud
9. Questions
10. Contact Details

Current State of Fraud

Impact of Fraud on Business

Fraud has a big impact on business

5% of revenue is lost due to fraud each year worldwide

In the Asia-Pacific region

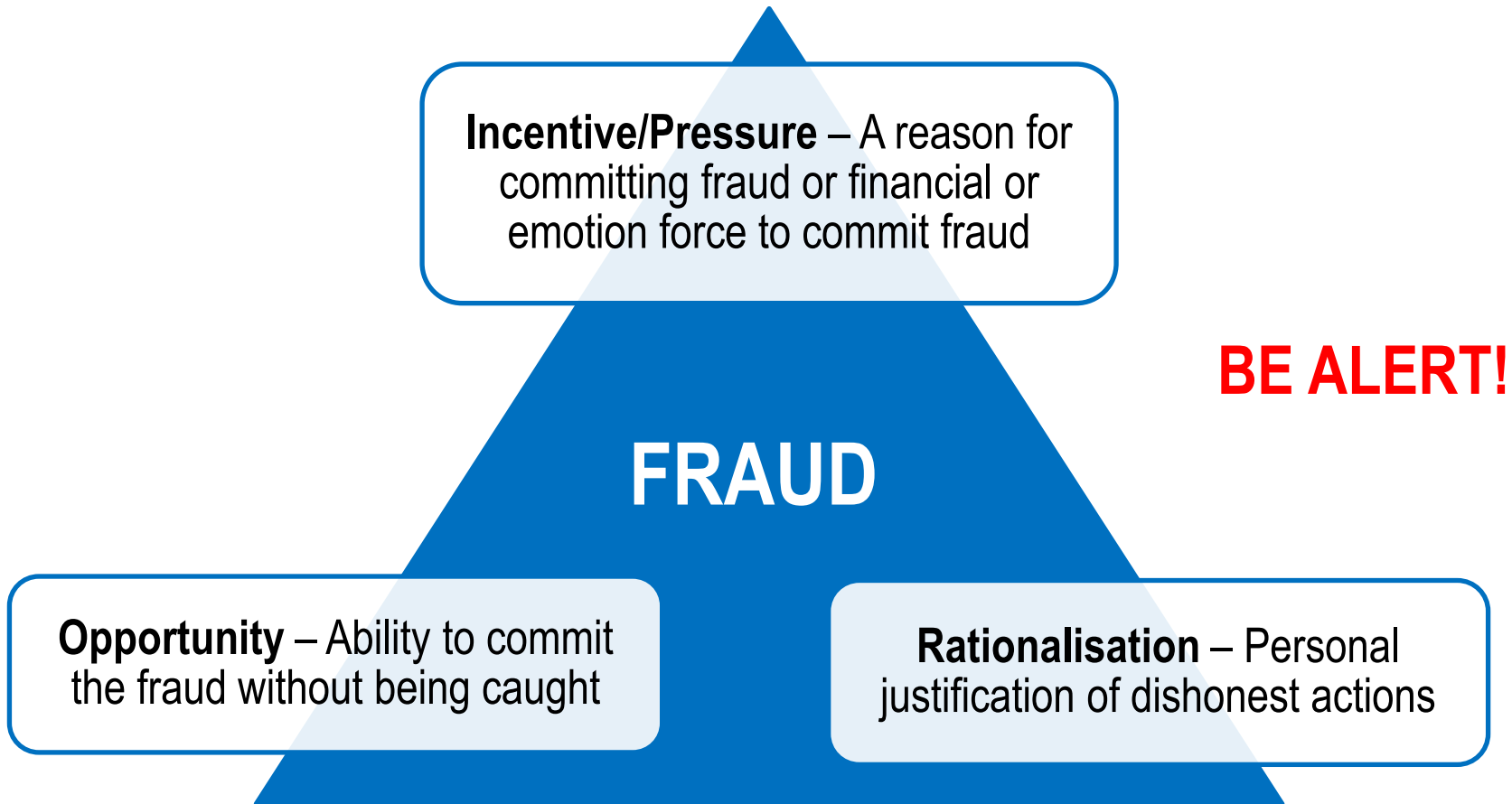
The median loss per case was USD\$195,000 and average loss per case was USD\$1,988,000

- As the sophistication of technology increases those committing fraud are becoming smarter to overcome new systems and controls
- The challenge is to stay ahead of those committing fraud
- All businesses should have a plan to manage fraud risk and detect fraud

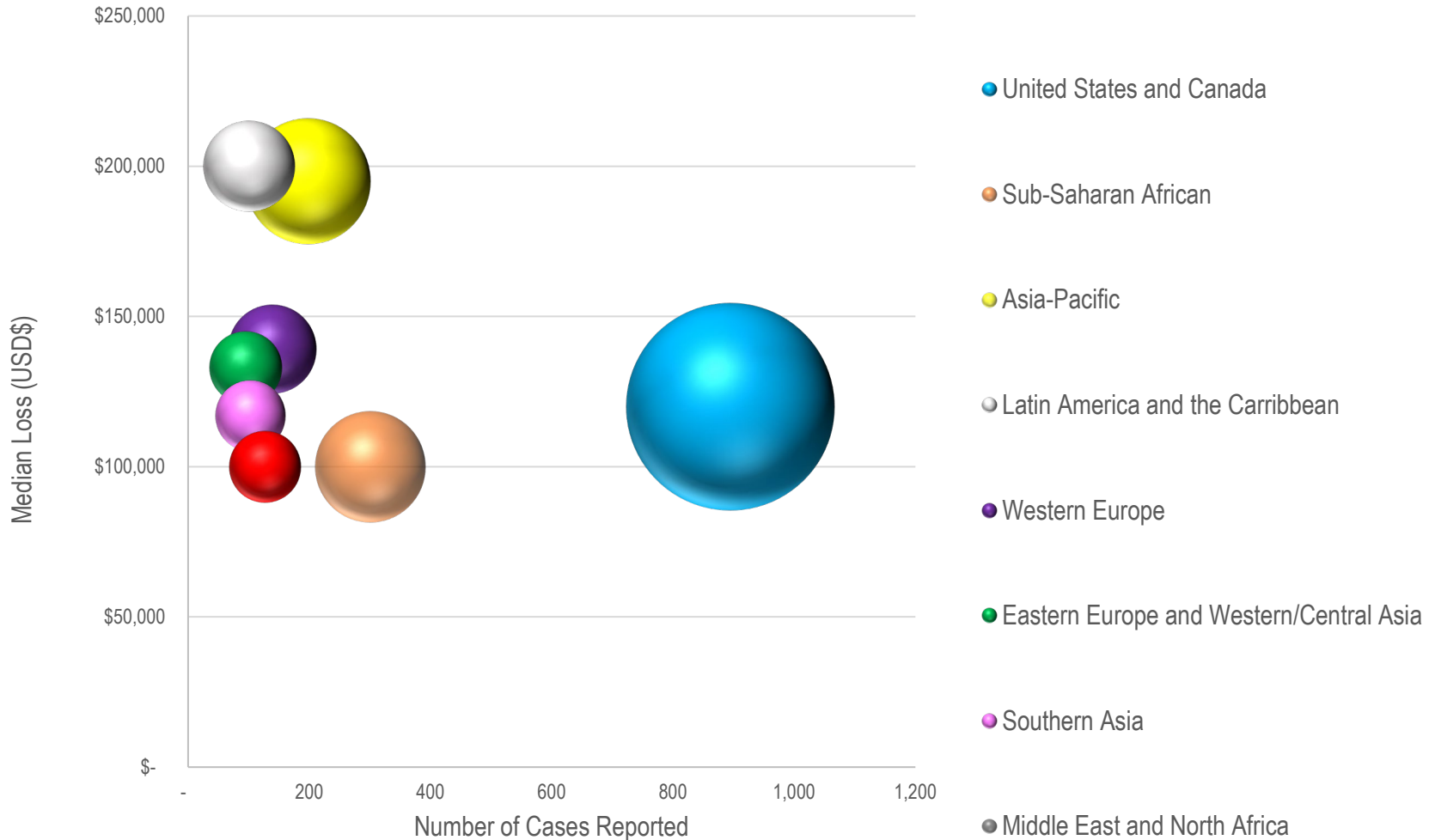
Statistics from '2020 Global Study on Occupational Fraud and Abuse' and '2020 Report to the Nations (Asia-Pacific Edition)'

Fraud Triangle

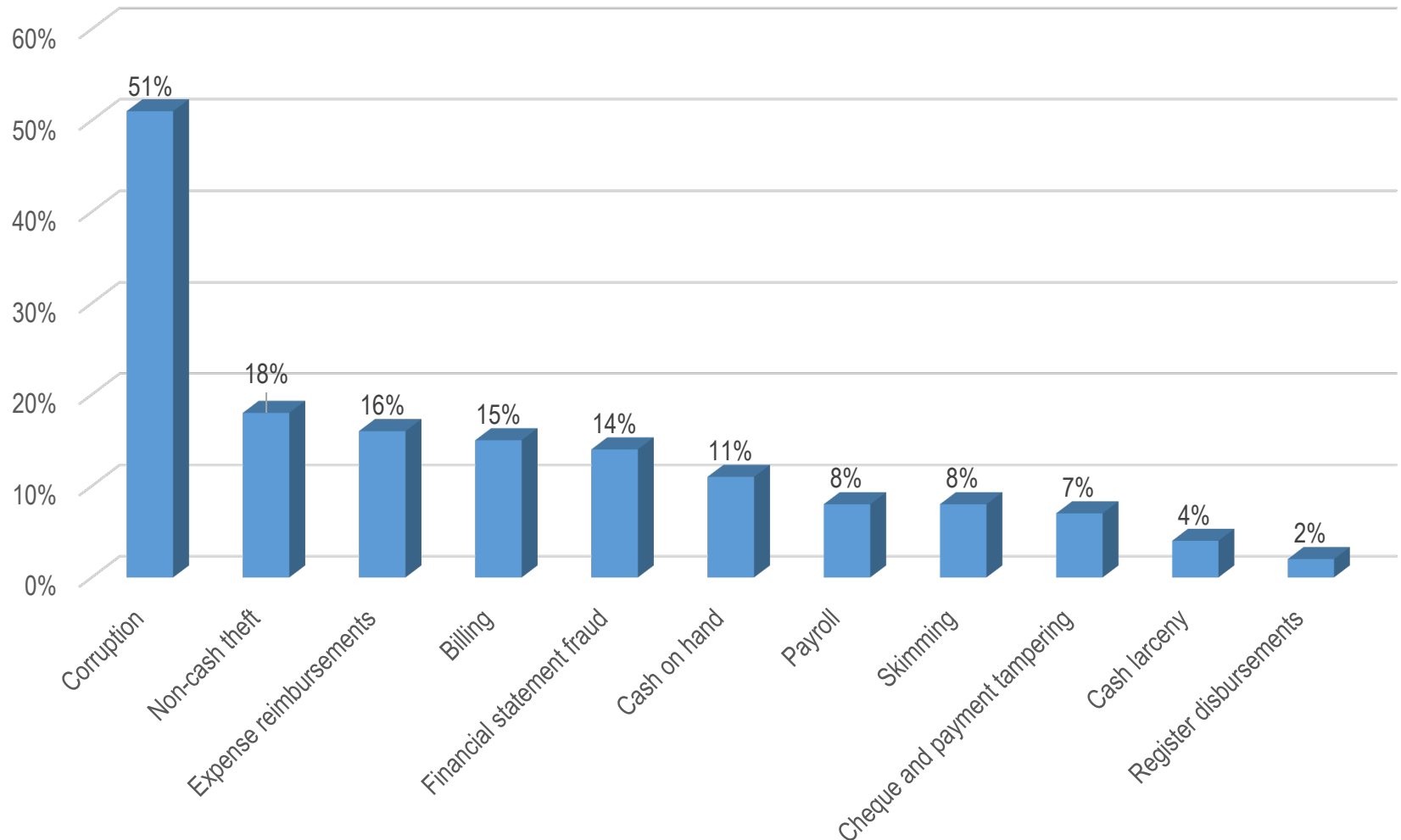
Things to look for when looking for fraud:



Size of fraud in each region



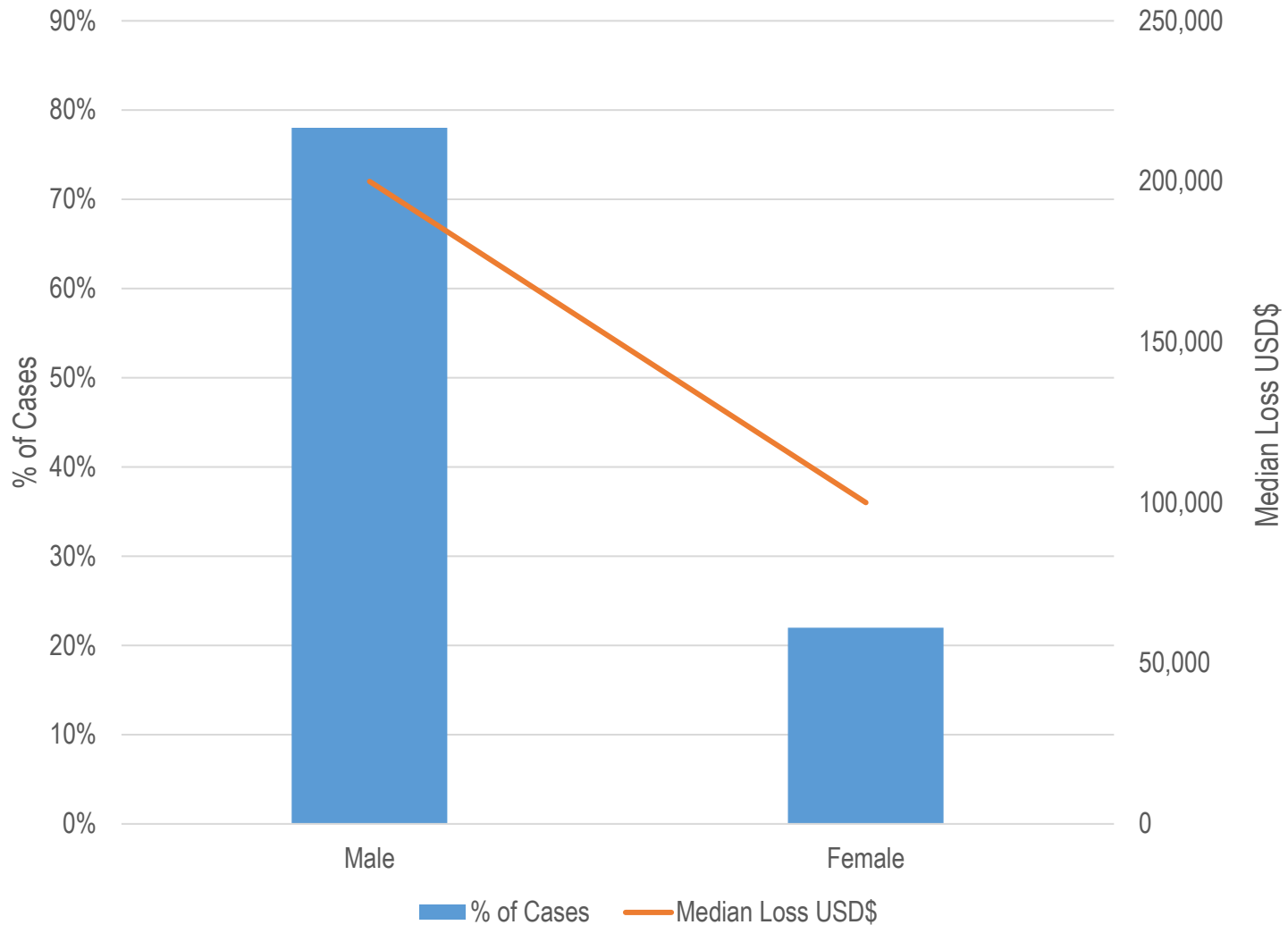
Common Types of Fraud (Asia-Pacific)



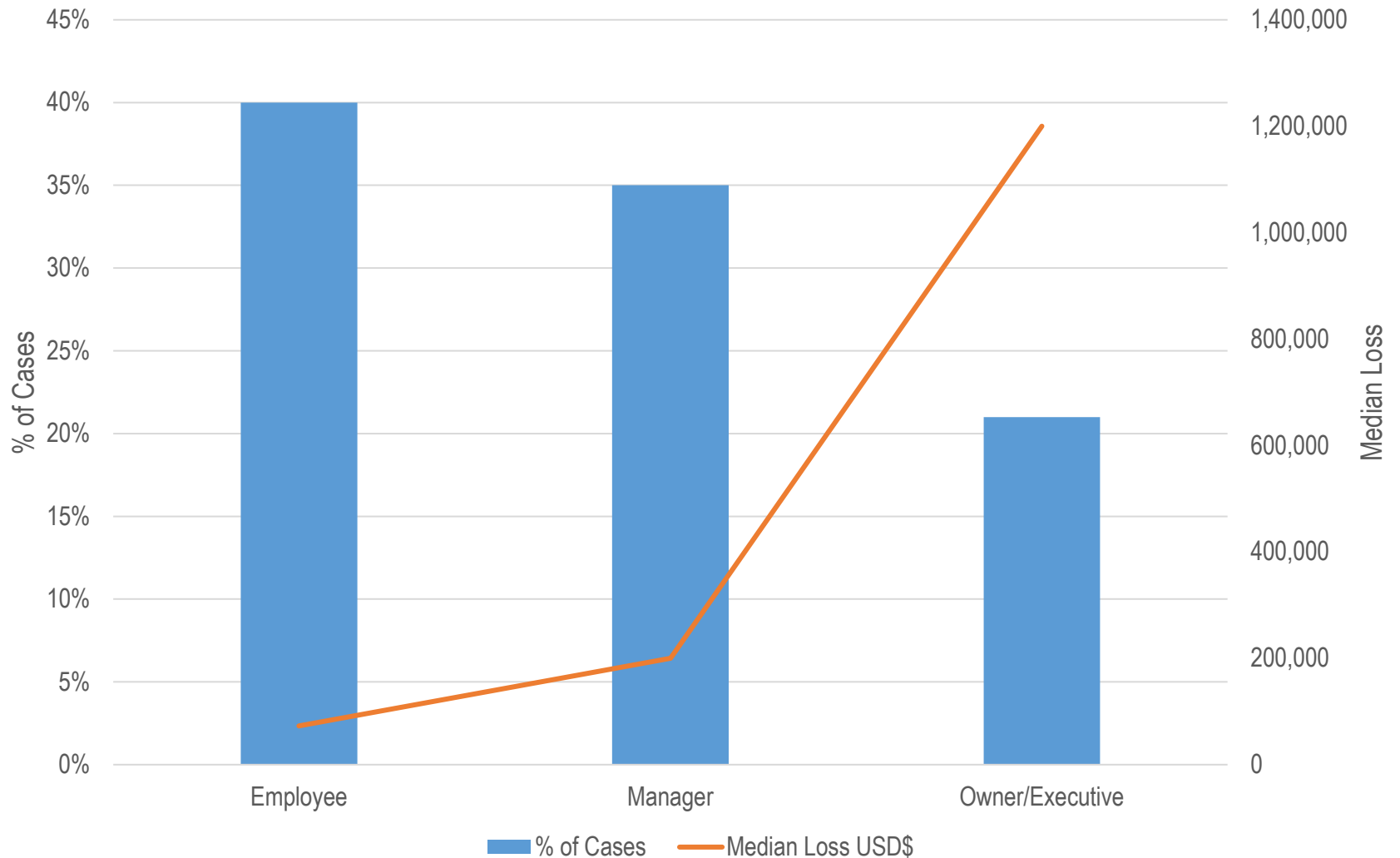
Internal Controls Weaknesses Contributing to Fraud (Asia-Pacific)

Internal Control Weaknesses	% of Cases this Internal Control Weakness Lead to Fraud
Lack of Internal Controls	31%
Override of Existing Internal Controls	23%
Lack of Management Review	14%
Poor Tone at the Top	12%

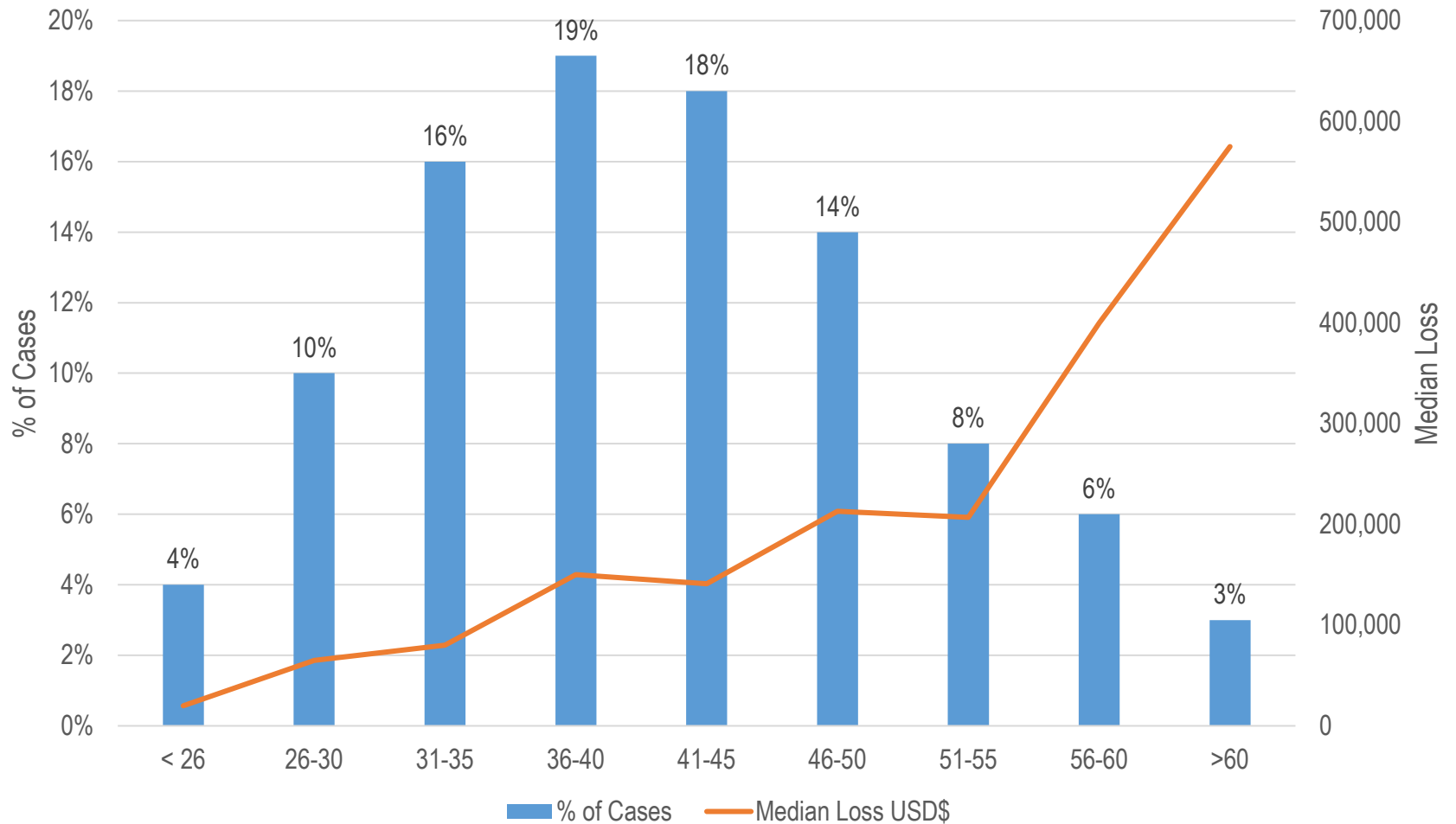
Profile of a Perpetrator – Gender (Asia-Pacific)



Profile of a Perpetrator – Level of Authority (Asia-Pacific)



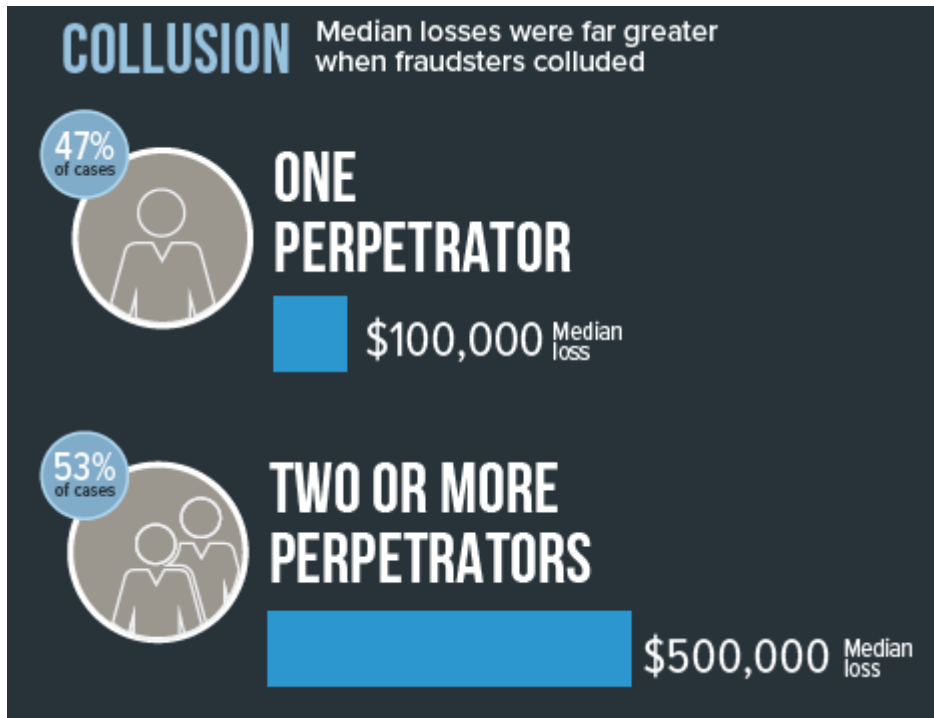
Profile of a Perpetrator – Age and Median Loss (Global)



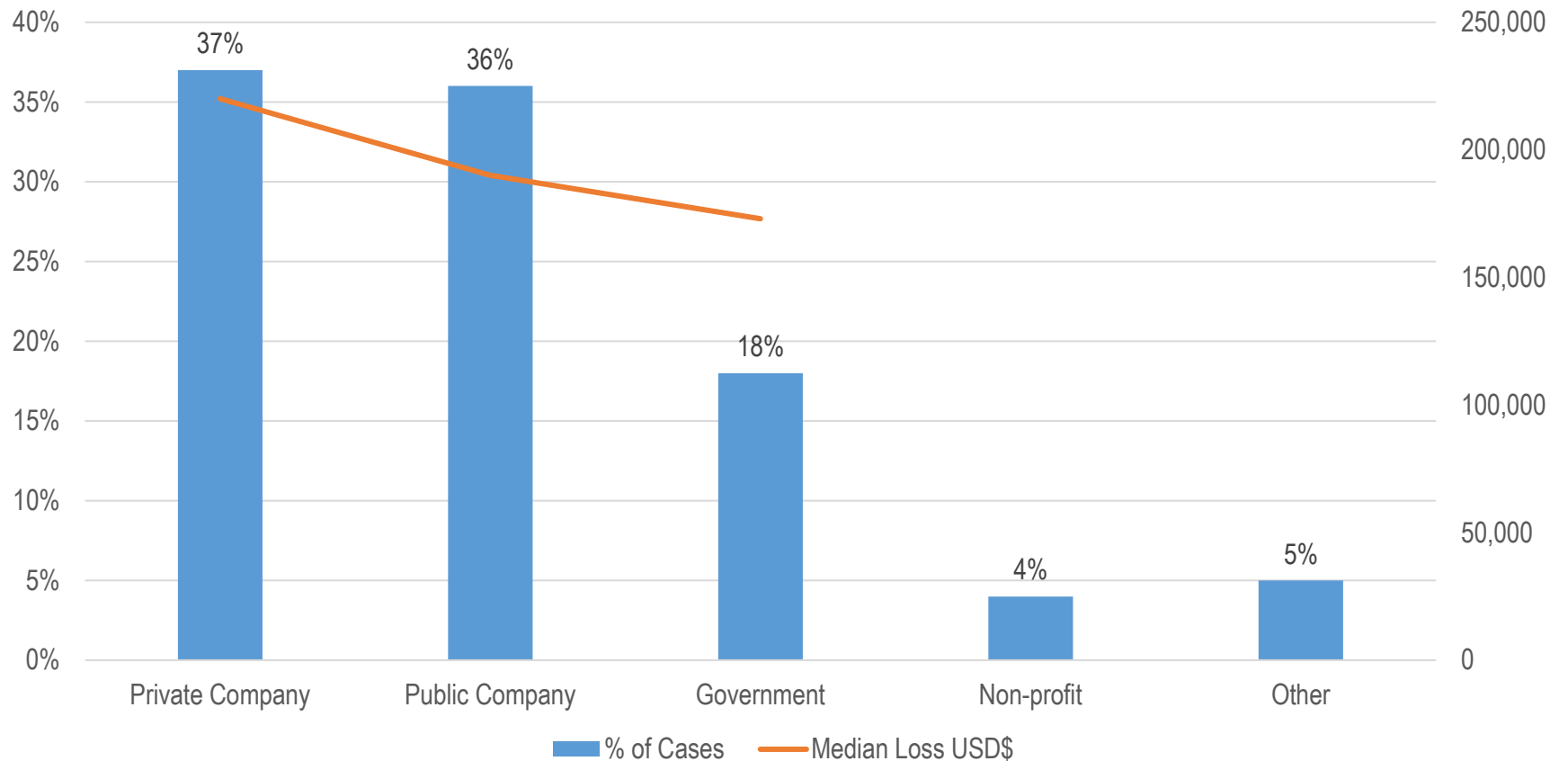
Profile of a Perpetrator – Common Fraud Red Flags (Asia-Pacific)



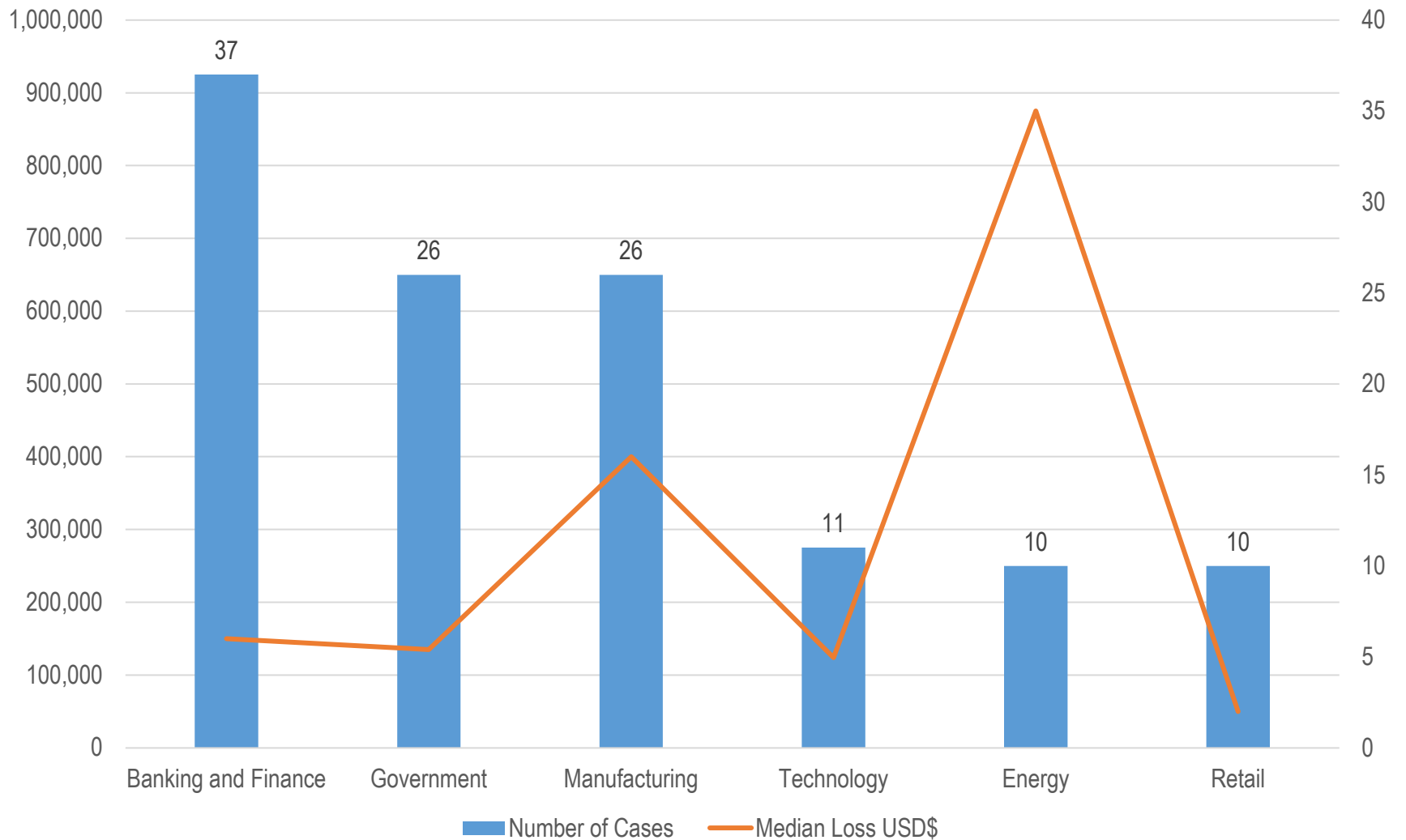
Profile of a Perpetrator – Common Fraud Red Flags (Asia-Pacific)



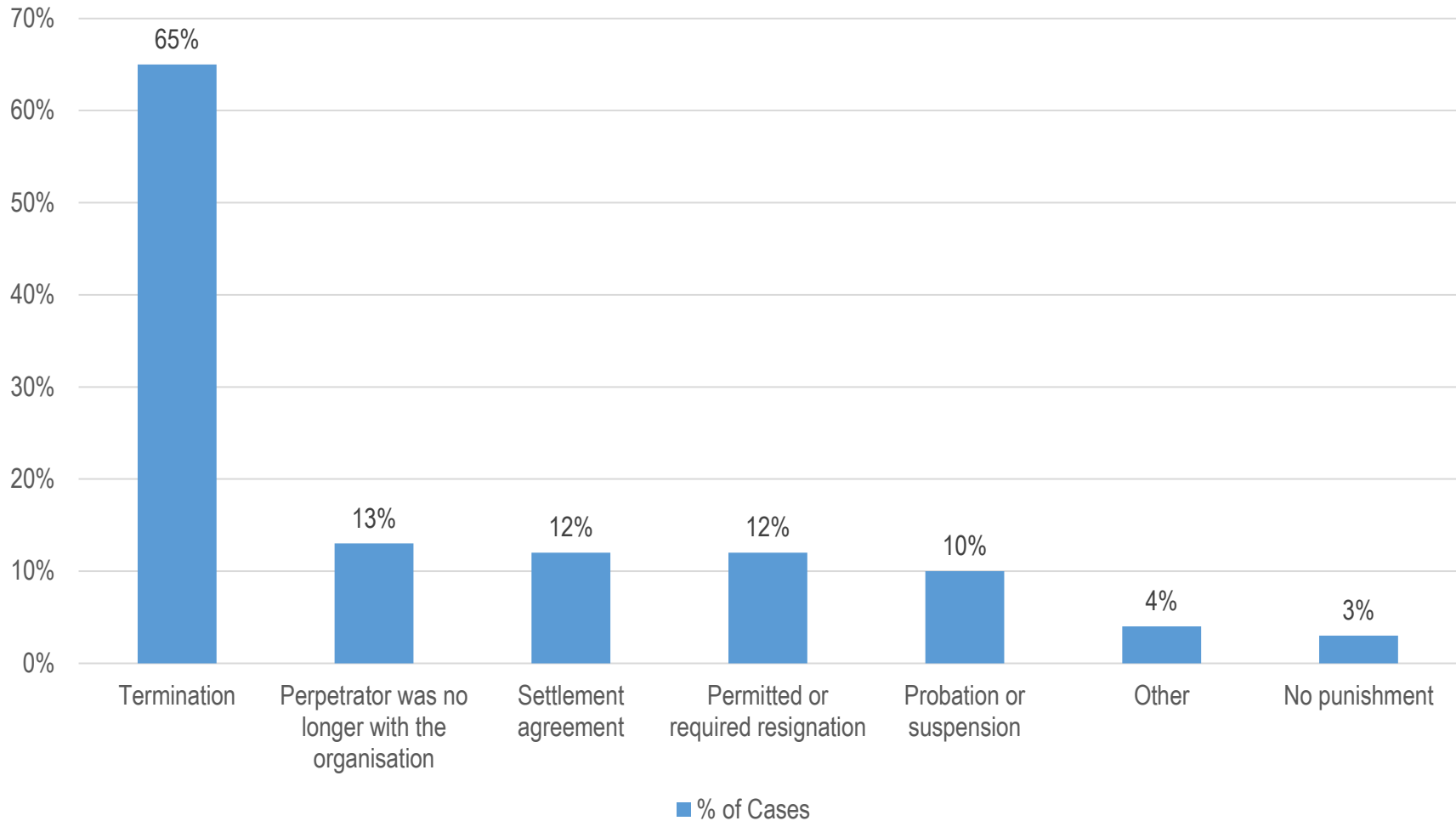
Victim Organisations (Asia-Pacific)



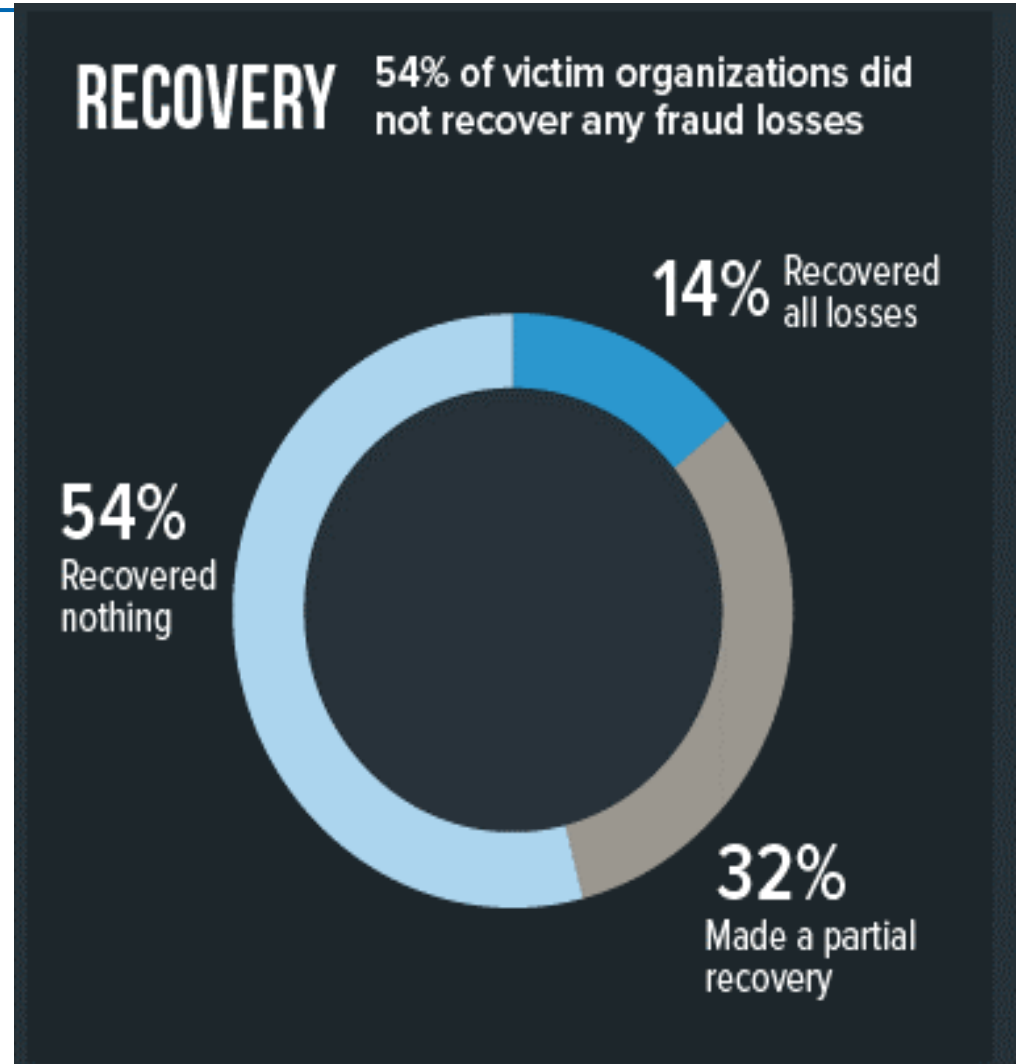
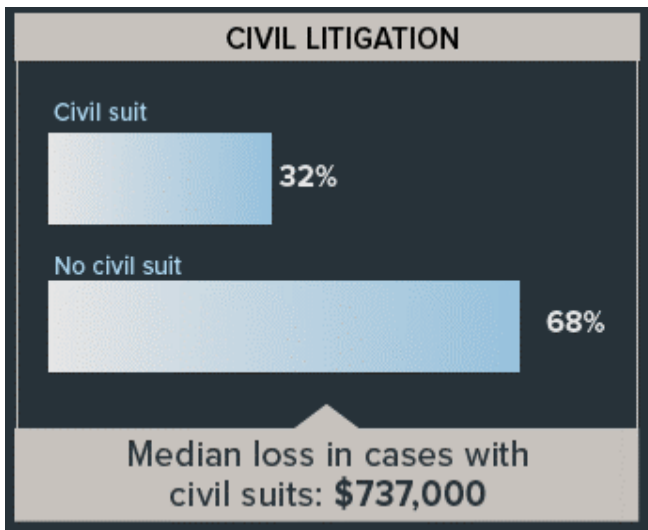
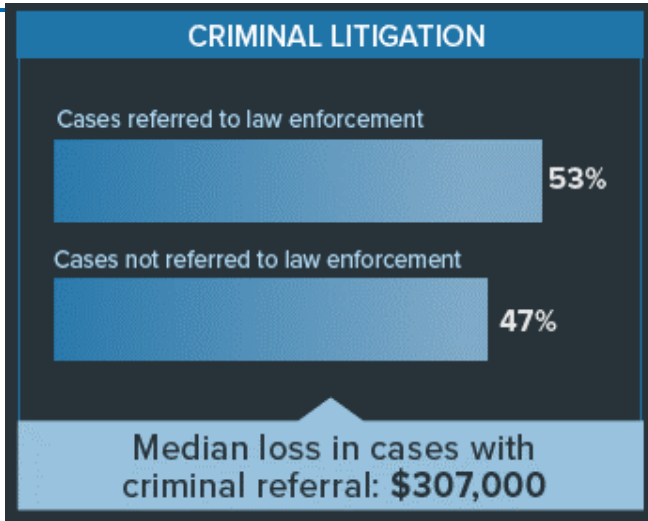
Victim Organisations (Asia-Pacific)



Internal action taken against the Perpetrator (Asia-Pacific)



Fraud Outcomes (Asia-Pacific)



Impact of COVID-19 Pandemic on Fraud

- The COVID-19 pandemic has increased opportunities and motivation for fraud
- **The pandemic has created the perfect storm of opportunity, motivation and rationalisation**
- Businesses are focusing on survival and may take their eye off fraud risk (less focus on Corporate Governance and Security Risk)
- Businesses are not updating their fraud risk assessment for increased risk
- Audits are being conducted remotely so it is harder to identify fraud in some cases
- There is increased risk of:
 - Asset misappropriation (less supervision over assets)
 - Financial statement misstatement (inflate financial results or overstate asset values)
- Large government subsidies, increased wage payments and redundancies increases the risk of fraud (more cash and harder to pick anomalies)
- People working from home can compromise IT controls
- Websites have been set up to defraud people (e.g. bogus online shops selling PPE)

Legislation

- You need to engage fraud experts who understand the law (e.g. Surveillance Devices Act)
- Employers can get into trouble where they try to fix the problem themselves (e.g. video or audio surveillance of staff or customers) without understanding what is permitted



Our Fraud Experience

Case Study 1 – Retail Theft

- This matter was a joint operation with Ashfords and SureFact.
- Small family business in the blue collar industry.
- This matter started as completely opportunistic by one of the employees (register disbursements).
- This whole incident was based around sloppy practices on the companies EFTPOS machine.
- This matter would never have been uncovered if it was not for the Ashfords team. They were able to provide a best estimate of the theft through review of banking records and the use of data analytics to identify trends in customer refunds
- Working with SureFact we were able to conduct a covert investigation to establish the facts, interviewed the offender who made full admissions as the evidence was just simply too strong.
- Using the amazing team at Duxton Hill lawyers we were successful in retrieving all of the money back from the offender using the civil legislation.

Case Study 2 – Contractor Governance

- Several instances of lack of contractor governance around contract cleaners, security and trades people.
- Poor controls around third party site access, monitoring, review of third party processes (e.g. pre-employment checks).
- Opportunities whilst no person is there (bigger opportunity during COVID-19 pandemic).
- “Person with a high vis vest and a ladder can do what they like as everyone just takes them for granted”



Case Study 3 – Email Scams

- External fraudsters are more professional. They spend the time to research their targets (e.g. reviewing company websites, corporate policies, company and senior staff social media accounts) to understand how businesses work (e.g. who approves payments, who are their key customers) and look for control weaknesses
- For example, they could hack into the CEO's email account and send an urgent request for a creditor payment from the CEO to Accounts Payable
- They could email Accounts Payable advising them that a key creditor has changed their bank account so that payments are made into the fraudsters bank account.
- These scams focus on staff that are busy and may not follow processes (e.g. call the creditor to confirm change of bank account details or payment authorisation)
- However they can also divert phone calls in case you ring to confirm over the phone

Lessons from our experience with fraud

1. Early detection
2. Don't try and do it yourself
3. Improve the business corporate governance
4. Ensure that you know your finances (every line item)
5. Listen to your accountant, and
6. Put more failsafes in place.

Lessons from our experience with fraud

7. CEO of not-for-profit

- Always ensure dual authorisation of payments

8. Cash controller

- Always follow procedures (even if you are busy)
- Ensure that staff take regular leave

9. Accounts payable

- Do reference checks before employing staff
- Ensure that only a few staff can change creditor and payroll details and that audit trails are regularly reviewed

Lessons from our experience with fraud (continued)

10. School registrar

- Perform a fraud risk assessment and ensure independent review of high risk areas e.g. sequence check of receipts

11. Accountant

- Be professionally sceptical. Ask questions e.g. why are the GST refunds being paid into the accountant's trust account.

12. Real estate agent

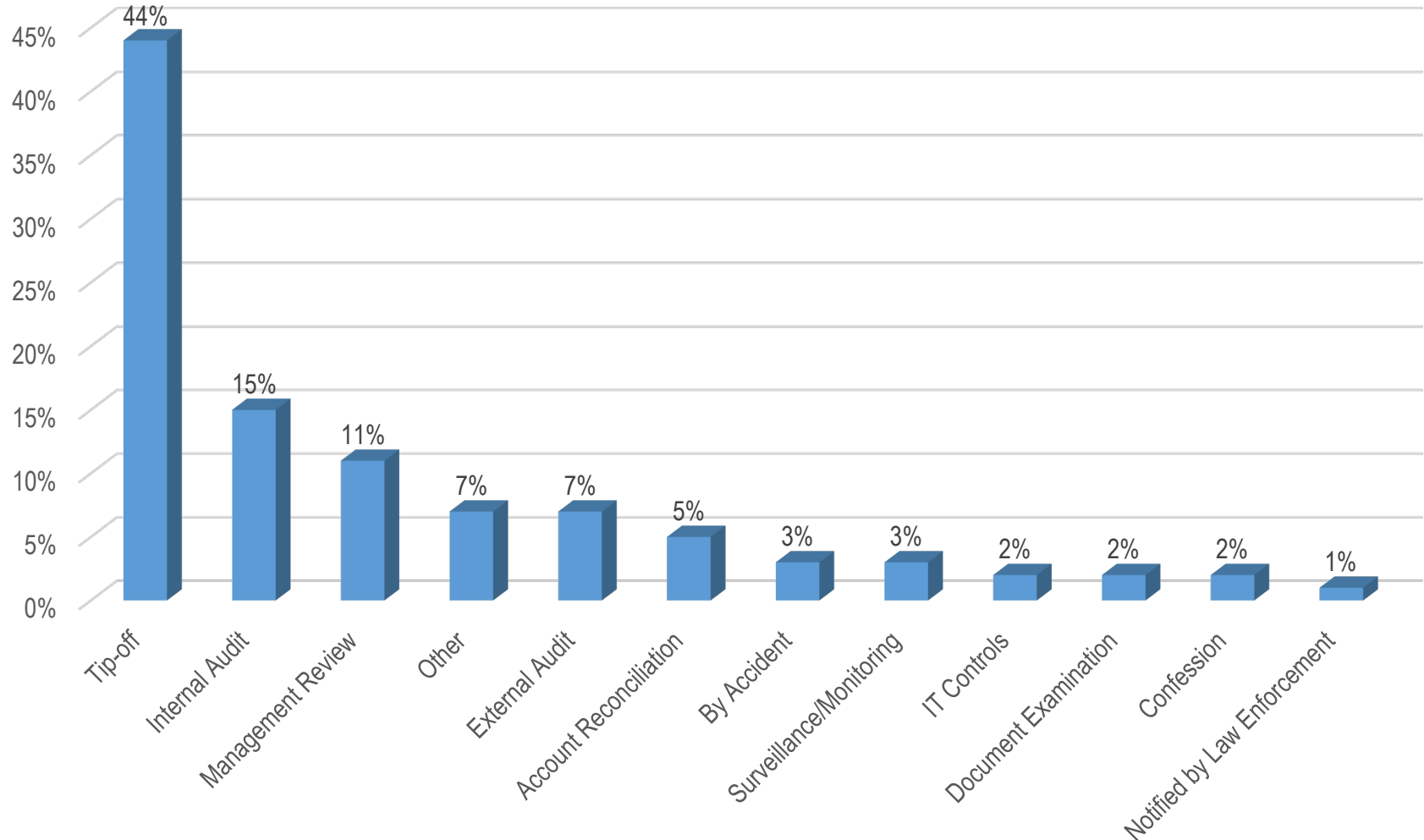
- If things look too good to be true they probably are
- The payroll clerk could also transfer funds from the company bank account without requiring a second authorisation. She also had the ability to make changes to the financial records to conceal her fraud without any review.

Anti-fraud Controls (Asia-Pacific)

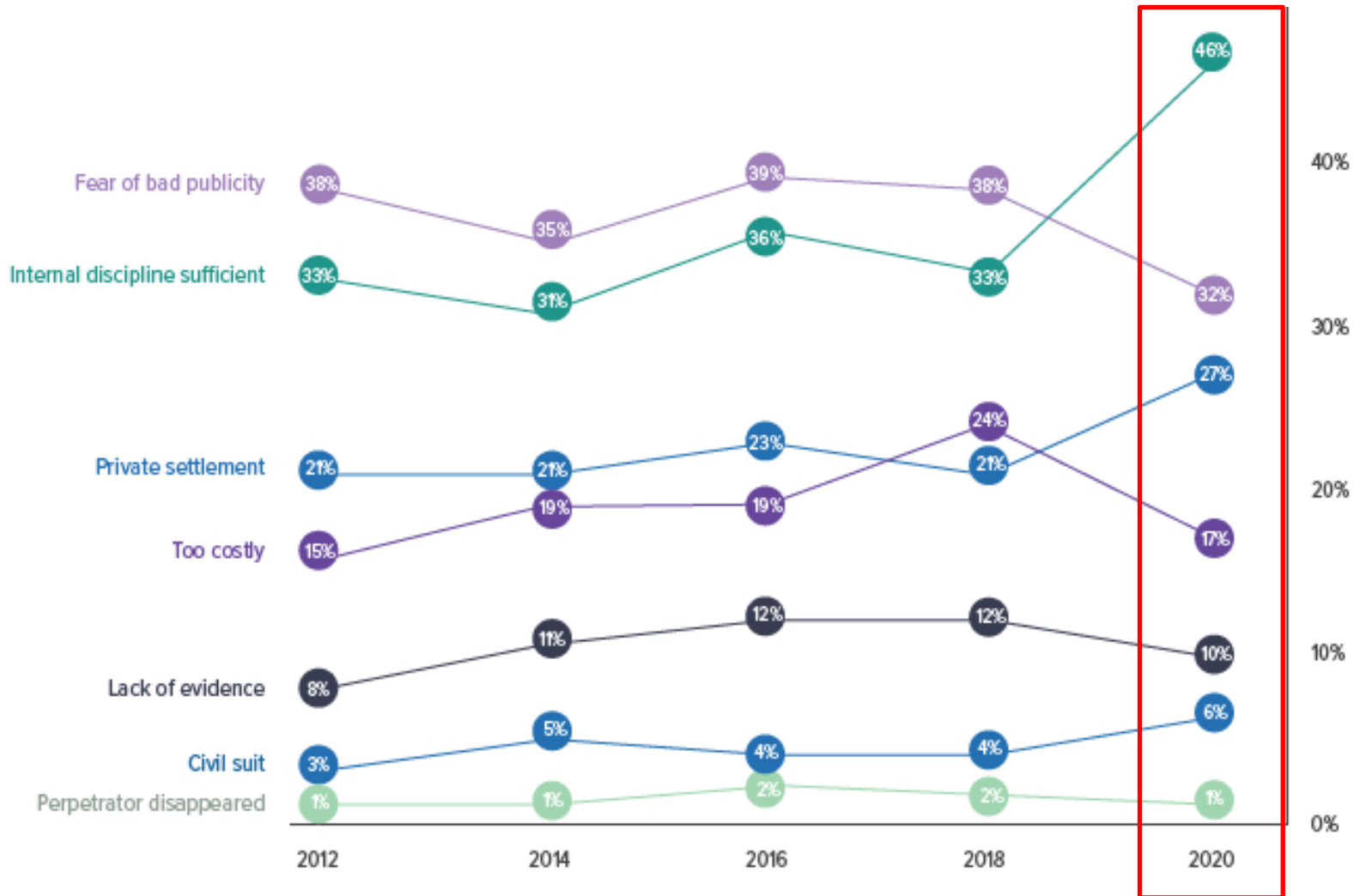
Anti-fraud Control	Reduced Losses	Reduced Detection Time
Internal Audit	68%	33%
External Audit of Financial Statements	20%	33%
Job Rotation/Mandatory Vacation	36%	67%
Formal Fraud Risk Assessments	44%	14%
Rewards for Whistle-blowers	32%	14%

The reduction in losses is in comparison to median losses and reduction in detection time is in comparison to median fraud duration

How fraud was initially detected in Asia-Pacific



Why don't victims report fraud to law enforcement (Global)



Fraud Solutions (Proactive and Reactive)

Fraud Solutions

- Use an expert
- Your costs for an investigation can be recovered
- Be proactive and speak to an investigations expert/security risk expert
- Stay vigilant at all times and always.
- If you think something is not right act early

Risk Management

- Fraud mitigation and detection forms part of an organisation's risk management program
- An effective risk management process forms the framework for fraud mitigation
- Organisations should:
 1. Document their risk appetite (risk-reward trade-off)
 2. Identify all potential risks from all stakeholders
 3. Rank each risk for likelihood and impact and document in risk register
 4. Identify and implement mitigation strategies for each risk
 5. Continuously monitor organisational risks

Internal Control Review

- Internal controls are defined as systems, processes and procedures designed to:
 - Conduct business in an orderly and efficient manner
 - Safeguard assets
 - Prevent and detect fraud and error
 - Ensure accuracy and completeness of accounting data
 - Produce reliable and timely financial information
 - Ensure compliance with policies
- An effective internal control environment is essential to reduce the risk of fraud
- Internal controls do have their limitations

Internal Control Review (continued)

- Ashfords has performed internal control reviews for clients to identify weaknesses in processes and procedures which could increase the risk of fraud and error
- Generally we would focus on internal controls in relation to specific transaction cycles such as:
 - Revenue
 - Expenditure
 - Inventory
 - Payroll
- At the conclusion of this process we provide our clients with a report which outlines our assessment of their internal controls, weaknesses identified and recommendations for improvements

Internal Audit

- An internal audit is the independent examination, monitoring and analysis of activities related to a business's operations. The scope of internal audit is much broader than external audit which is primarily focused on the financial statements.
- Internal audit has a very different focus to external audit and therefore is much more likely to identify fraud
- An internal audit program is generally set by the business being audited
- Internal audits can either be conducted by an internal audit department or alternatively can be outsourced to an audit firm
- An effective internal audit program should include surprise audit testing

Internal Audit (continued)

- We have previously performed internal audits for clients across a number of areas including:
 - Credit card usage
 - Contract management
 - Motor vehicle usage
 - Payroll
 - Revenue
 - Accounts payable
 - Fixed assets and capital expenditure
- At the conclusion of an internal audit we would provide a report on the testing performed, the findings from our testing and recommendations for improvement of controls
- An internal audit report does not include an opinion on the effectiveness of internal controls. It is a report on the factual findings of the audit.

Data Analytics

- With continual improvements in technology, data analytics is becoming a common tool for the identification of fraud or error
- One of the reasons for the increase in popularity is that data analytics is a cost-effective method to identify fraud or error as you can efficiently test large volumes of data using specialised software
- Data analytics can also use non-financial data and look for anomalies in comparison to financial data (e.g. looking for outliers in data sets)
- Businesses are collecting data on all sorts of things these days. Data analytics can harness the power of this data to identify fraud or error

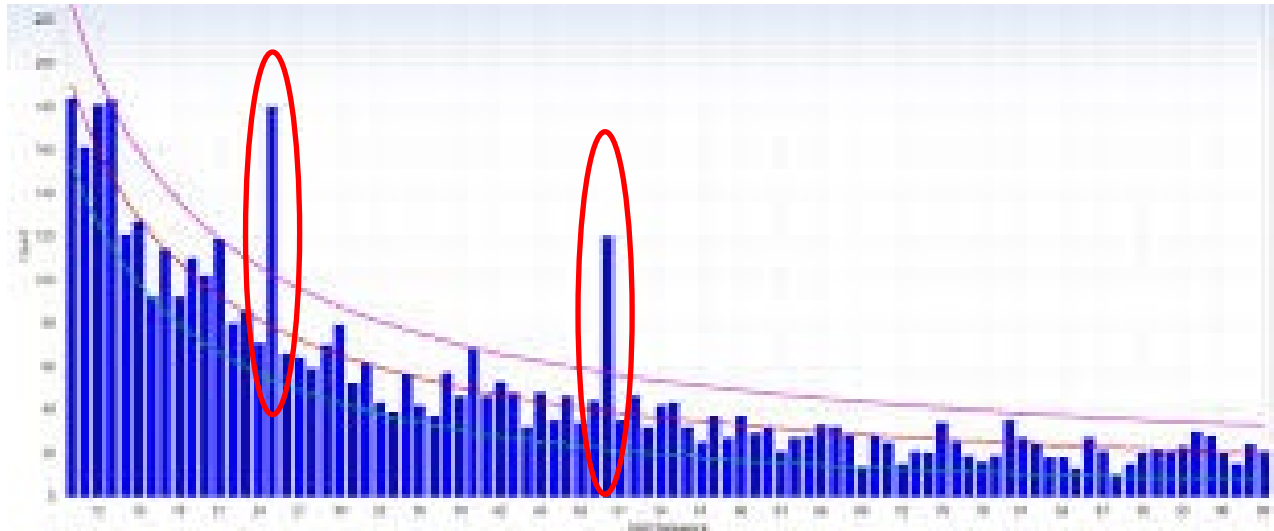
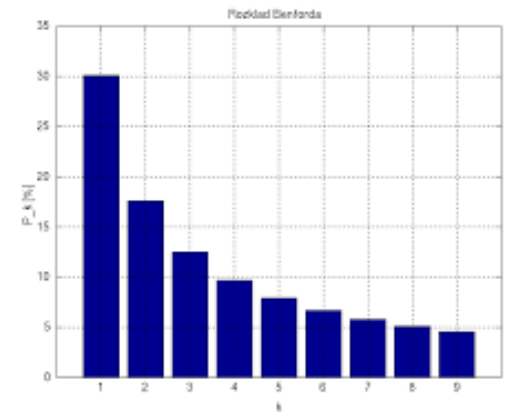
Data Analytics (continued)

Common data analytics procedures performed include:

- Review payroll system for duplicate TFN's (ghost employees)
- Compare addresses and bank account numbers between payroll and creditors to identify any fictitious creditors
- Regression analysis to identify unusual transactions/balances
- Trend analysis
- Sequence checks (may indicate deleted invoices)
- Unusual transactions (e.g. processing transactions on a weekend or by someone who does not work in a particular area)

Data Analytics (continued)

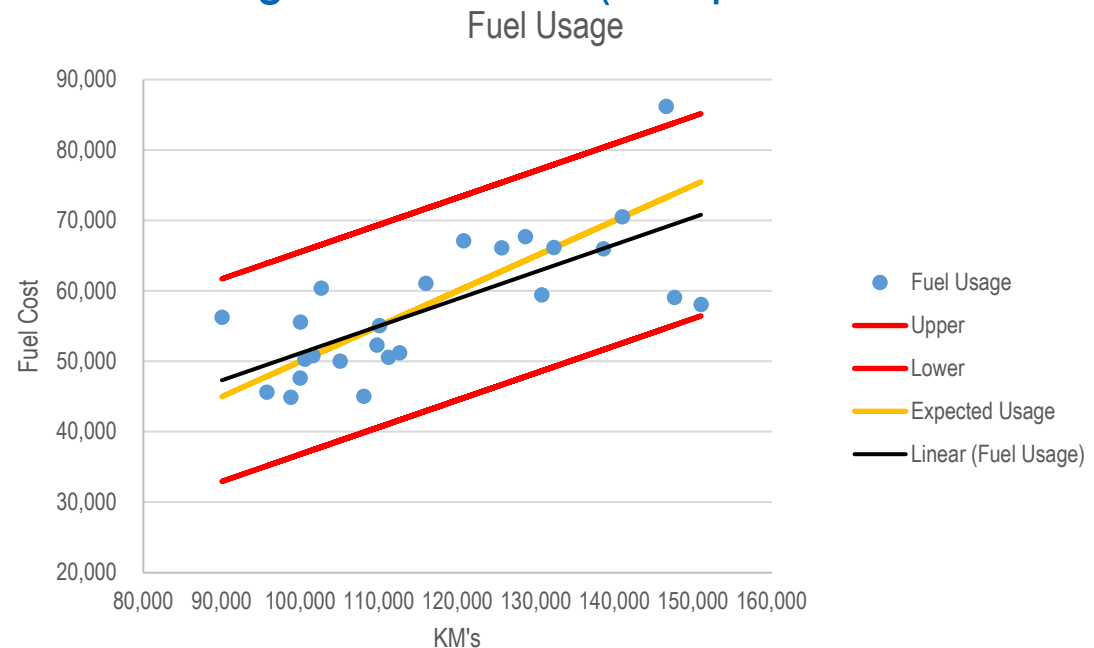
- Benfords law states that the normal distribution of first numbers in a data set should look like the curve on right
- We run Benfords law test on data to identify anomalies
- We used Benfords Law in Case Study 1 to identify an unusual quantity of made up refund amounts.



Data Analytics (continued)

Case Study

- A transport company operates 25 trucks throughout regional Australia
- According to the manufacturer fuel usage is 2 kilometres per litre
- Regression analysis was used to identify excessive fuel usage (possible theft) or inefficient usage of vehicles (compare to benchmarks)



Insurance

Crime cover can be purchased to cover internal and external fraud threats including:

- employee theft cover
- premises cover (covers damage to premises from an act of crime)
- in transit cover
- forgery cover
- cyber fraud cover
- funds transfer fraud cover
- counterfeit currency fraud cover
- credit card fraud cover
- crime expense cover (e.g. covers investigation costs)

Insurance (continued)

- Read the policy wording to make sure you are covered for acts of fraud and understand the exclusions that apply to your policy. For example some policies exclude cover if the fraud is committed by a director.
- Most policies also exclude cover where the organisation does not have 2 signatories/approvers authorising payments.
- Understand what you are covered for



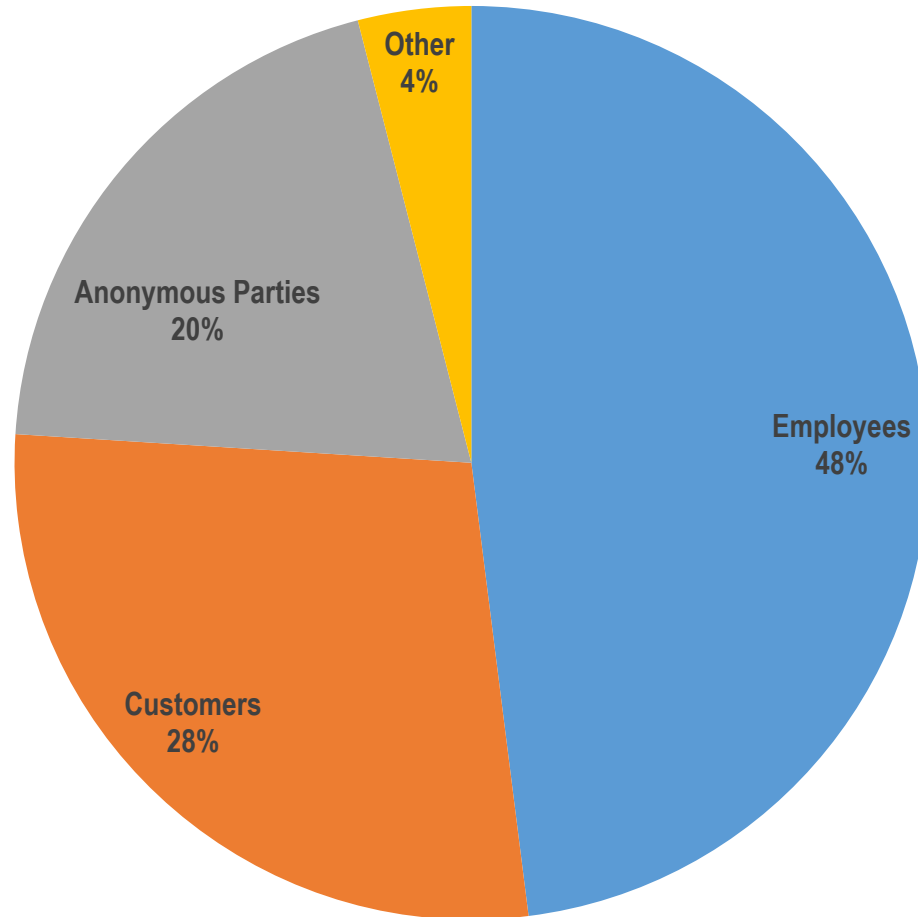
Whistleblower Service

- Using a whistleblower service is one of the most effective ways of detecting fraud
- There are many examples where whistleblowers have uncovered large corporate fraud (Olympus, NAB Foreign Exchange Dealer, 7-Eleven, Enron)
- Implementing a whistleblower program sets a tone at the top (culture) that inappropriate conduct (not just fraud) will not be tolerated
- Whistleblowing programs reduce financial and reputational risk associated with inappropriate conduct
- Outsourced whistleblowing services are much more affordable and accessible for businesses of all sizes

Whistleblower Service (continued)

- An effective whistleblowing service must:
 - Maintain the anonymity of the whistleblower
 - Provide a secure online tool to communicate anonymously with the whistleblower
 - Provide protection to the whistleblower
 - Ensure that whistleblower reports are acted upon
- Whistleblowing obligations:
 - Corporations Act – The Act prohibits retaliation against a person disclosing breaches of the Act. Whistleblowers must give their name before making disclosure and have reasonable grounds that someone has contravened the Act.
 - Australian Standard – Whistleblower protection programs for entities

Source of Tip-offs (Asia-Pacific)



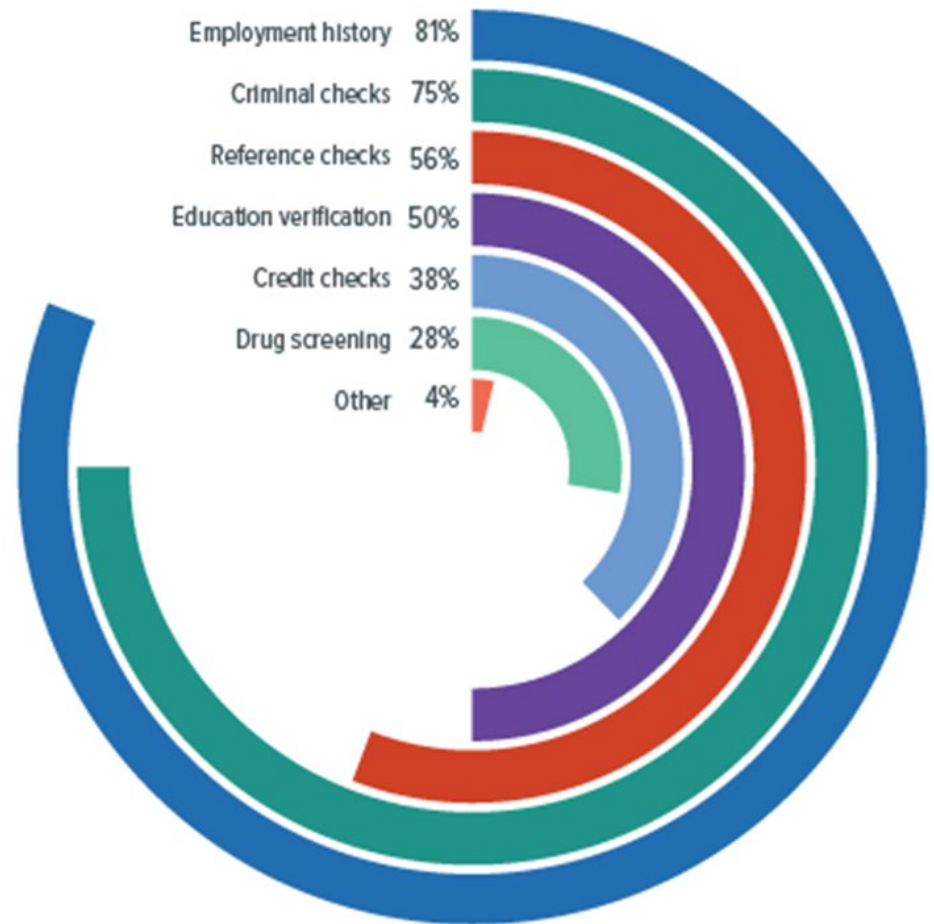
Tip-offs (Asia-Pacific)

- The median loss at organisations with hotlines was USD\$156,000 vs USD\$262,000 without
- Organisations with a hotline were twice as likely to detect fraud via a tip-off than those without a hotline
- Organisations were twice as likely to detect fraud from a tip-off after Employee Fraud Awareness Training
- Tip-offs were more commonly used to detect fraud in smaller organisations than larger ones

Recruitment Practices

When employing new staff the importance of background checks is critical

Importance of reference checks was shown in the accounts payable clerk example previously mentioned



New Developments in Fraud Detection

Continuous Monitoring

- Some organisations are implementing continuous monitoring systems to enable timely and accurate data to assess fraud risk.
- These systems require specific technology to obtain the data, perform detailed analytics and assess the results.
- The systems only report exceptions

New Developments in Fraud Detection

New technologies enable companies to continuously monitor and assess fraud risk through the use of:

- Trend analysis
- Exception reporting
- Ad hoc analytics
- Risk modelling
- CCTV monitoring
- GPS tracking
- Drones

What can you do to prevent fraud

- You need to be on the look out for indicators of fraud. Look at the fraud triangle (incentive/pressure, opportunity and rationalisation)
- Complete the fraud prevention checklist
https://www.fraudweek.com/fraudweek/-/media/Files/Fraudweek/PDFs/Fraud_Prev_Checkup_DL.pdf
- Develop a fraud plan
- Talk to fraud experts to help you to reduce fraud risks in your business
- You need to start with an effective risk management program to set the framework for your fraud prevention program
- Then based on your specific risks and your risk appetite you can determine which tools are going to be most effective in reducing fraud risk to an acceptable level for your business

What can you do to prevent fraud

BE PROACTIVE!

DON'T WAIT UNTIL YOU ARE THE VICTIM

Questions



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