



The Thief in Your Client's Company

Exploring the Hidden Impacts of Fraud

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Background

- What is Fraud
- Who are the Fraudsters?
- Behavioural Red Flags
- Meet the Victim(s)
- Understanding Whistleblowers

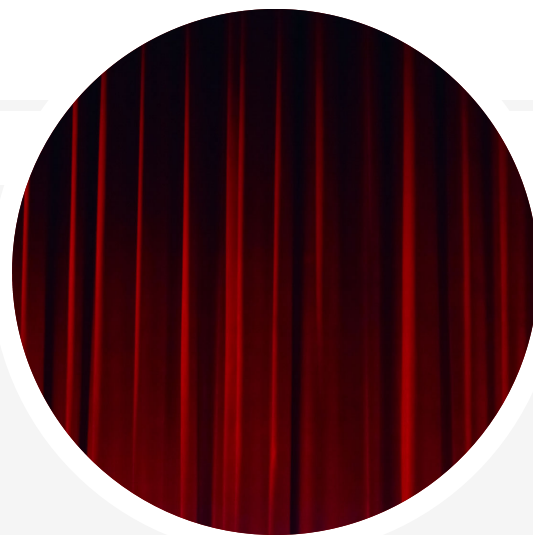




► Fraud Defined

"An investment in knowledge pays the best interest."

~Benjamin Franklin



Fraud Defined



Black's Law Dictionary:

- *"A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment."*

Association of Certified Fraud Examiners:

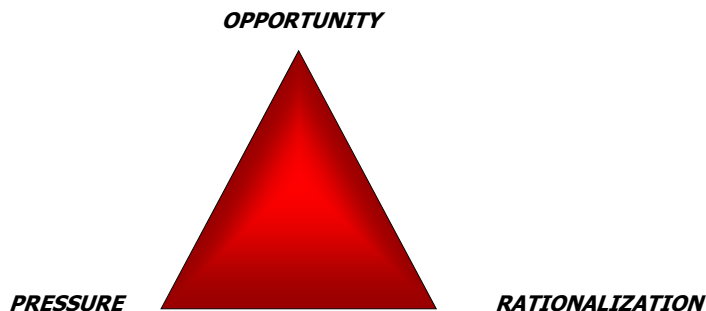
- *"Any intentional or deliberate act to deprive another of property or money by guile, deception or other unfair means."*



The Fraud Triangle

Occupational Fraud

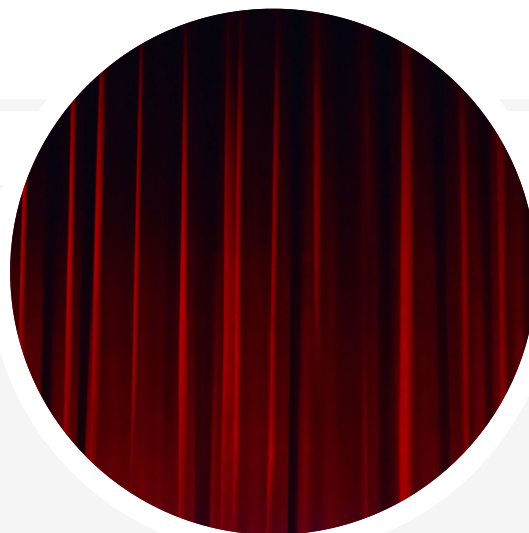
Using one's occupation for unauthorized personal gain through deliberate misuse of the employing entity's resources or assets.

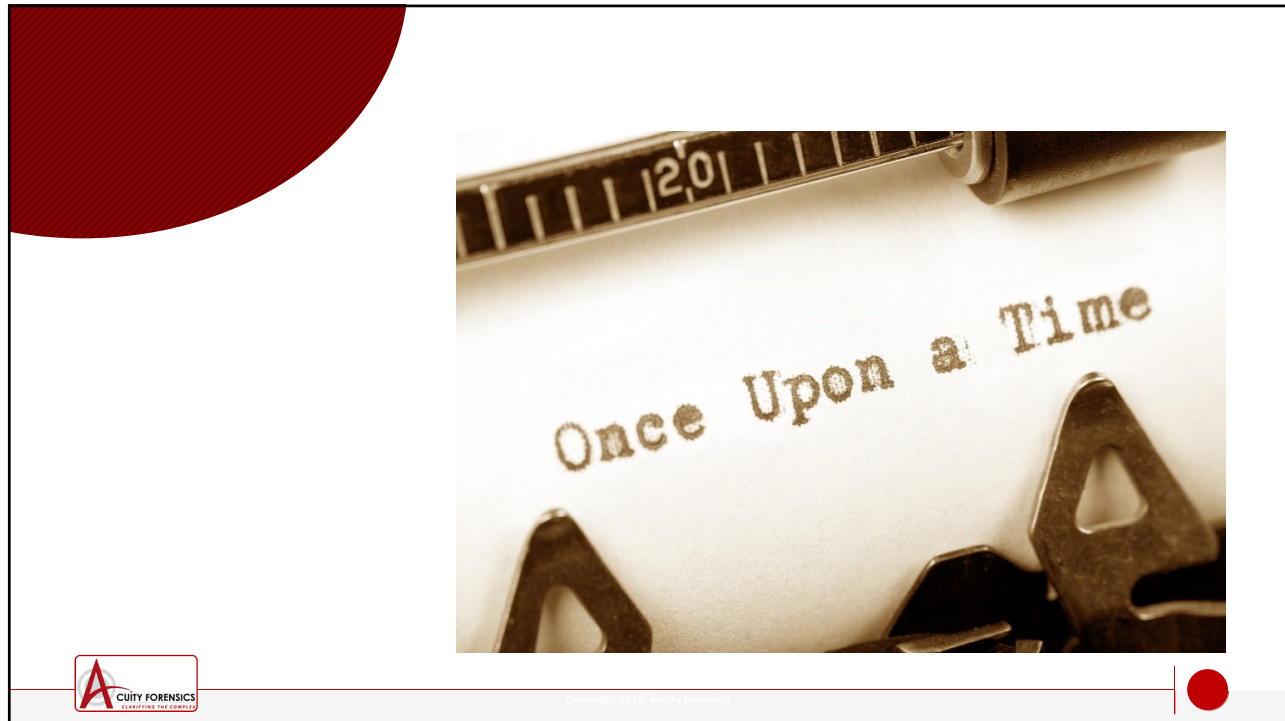


► Meet the Fraudsters

"Characterize people by their actions and you will never be fooled by their words."

~Unknown





Meet the Fraudsters

Guy Fawkes



The Trusted City Clerk



A CUITY FORENSICS
CLARIFYING THE COMPLEX

Meet the Fraudsters

**Mom &
Fun-Loving Co-Worker**



**Up & Coming
Executive Director**

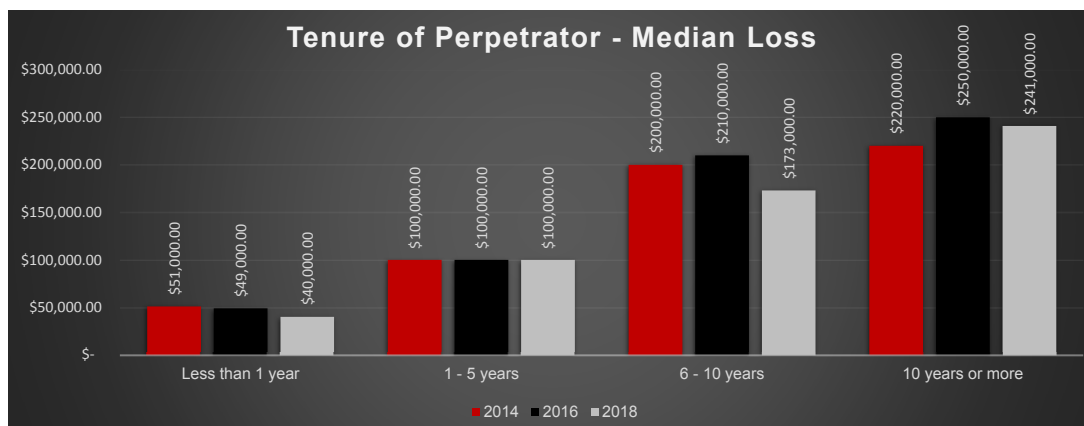


**Long-Time Controller
and Trusted Friend**



Who's Taking the Money?

How Does a Perpetrator's Tenure Relate to Occupational Fraud?



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Key Red Flags

BEHAVIORS

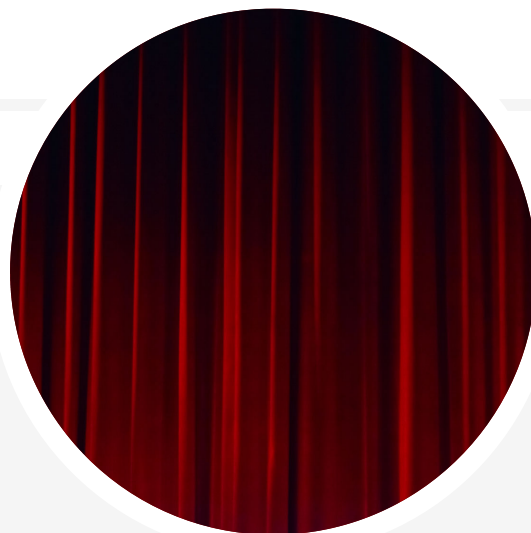
- Rarely absent; refuses to take PTO
- Refuses to relinquish control or train others
- Works when others aren't present
- Appears to be living beyond means
- Refuses to provide basic financial information
- Offended when questioned

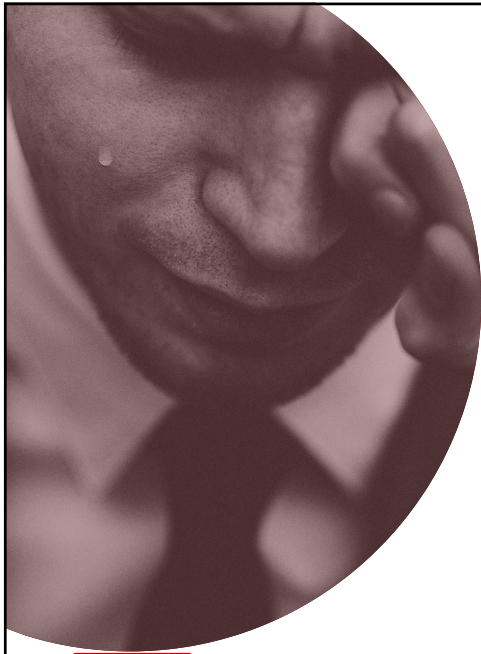
MOTIVATORS

- Addictions
- High personal debt
- Personal crisis
- Attitude of entitlement



► Understanding Fraud Victims





Meet Gary



Meet Eric



Victims of Fraud

Common Reactions

- Sadness
- Disappointment
- Disbelief
- Anger
- Fear
- Guilt
- Avoidance



Key Learning Points

In Business, it's okay to deal with people on a human level, in fact – it's VITAL.

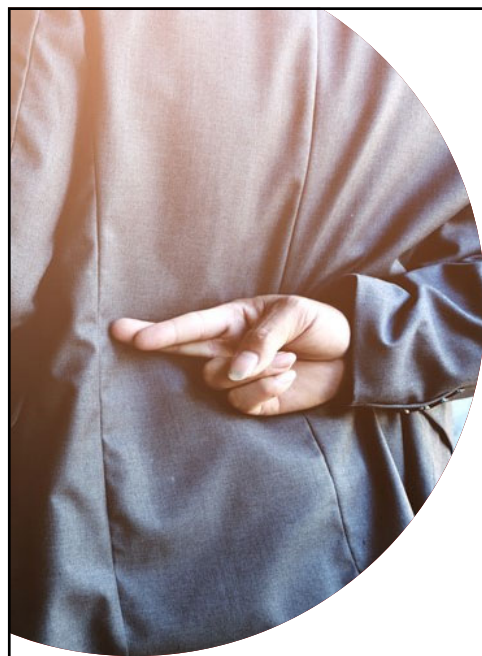
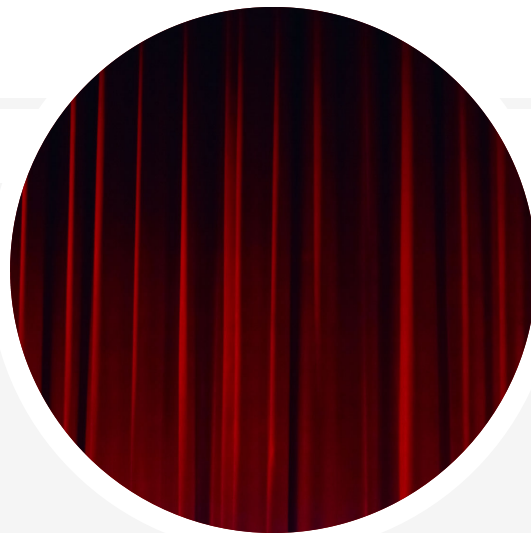
- Express Empathy
- Return Power
- Can-Do Attitude



► Fraud Schemes

"Rather fail with honor than succeed by fraud."

~Sophocles



Fraud Schemes

Asset Misappropriation

- **Cash Receipts Theft**
 - Larceny
 - Skimming
- **Fraudulent Disbursements**
 - Check tampering
 - Billing schemes
 - Payroll schemes
 - Expense reimbursement schemes
 - Register disbursement schemes

Corruption

- Kickbacks / bribery
- Conflicts of interest

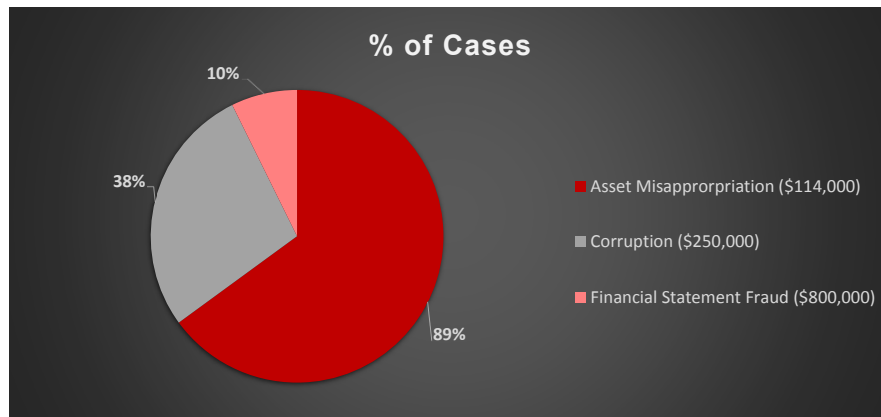
Financial Statement Fraud

- Fictitious revenues
- Timing differences
- Concealed liabilities / expenses
- Improper asset valuations
- Improper / omitted disclosures



Methods of Fraud

Frequency of Schemes with Average Losses

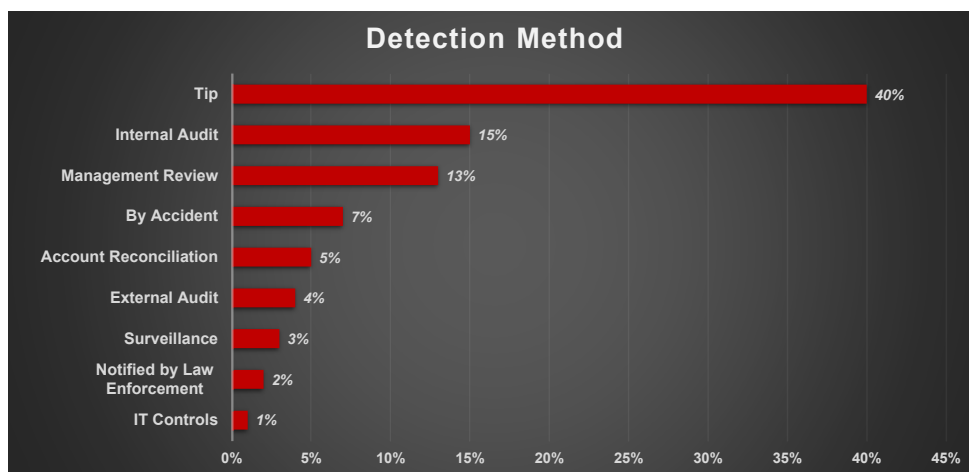


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Fraud Detection Methods

How Fraud is Uncovered



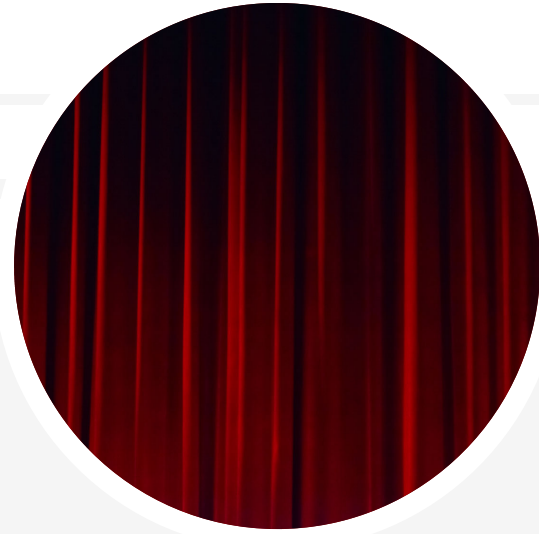
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Understanding the ► Whistleblowers

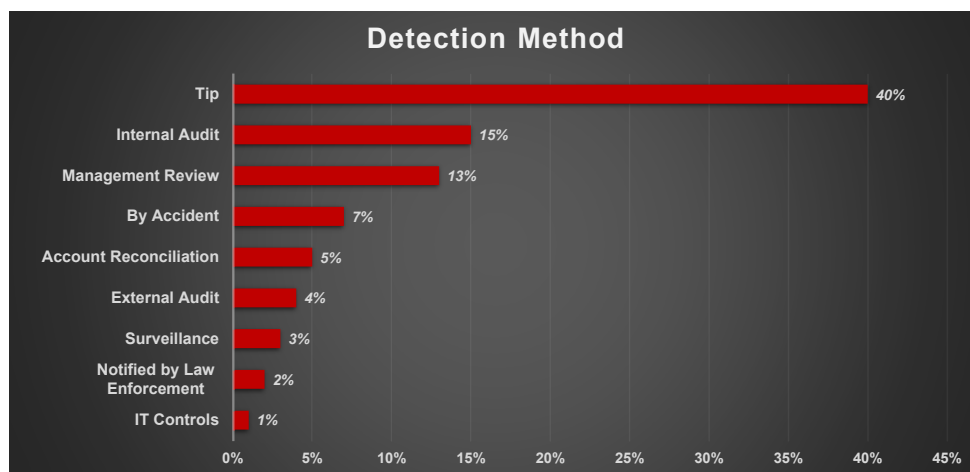
"When exposing a crime is treated as committing a crime, you are being ruled by criminals."

~Unknown



Fraud Detection Methods

How Fraud is Uncovered



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Whistleblowers – In Their Shoes

- Will I be believed?
- Will I lose my job?
- Can I get a job as good as this one?
- Will they still like me?




Key Learning Points

- Fraud is perpetrated by the most well liked and trusted employees.
- Fraud is a crime of breached trust
- Big organization or small, emotional reactions are the same
- 90% of risk can be found in asset misappropriation schemes
- The #1 fraud detection method is a whistleblower tip
- Whistleblowers are afraid to say something for fear of retribution

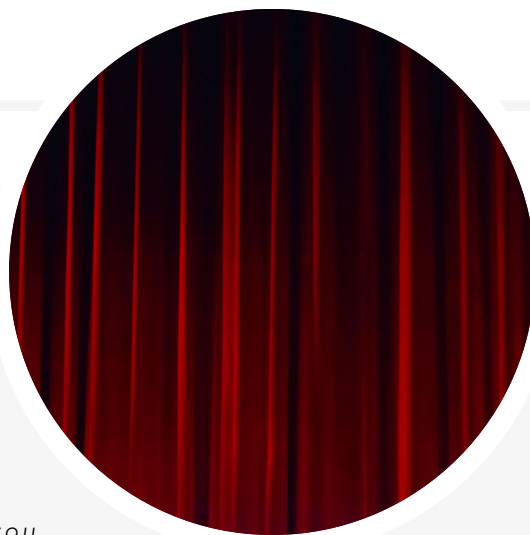




► The Auditor's Role

"Whether you think you can, or you think you cant ~ you're right."

~Henry Ford



The Scarlet Letter

**AUDITORS &
INVESTIGATORS
ARE SCARY
PEOPLE**





Overcoming the Scarlet Letter A

- Build rapport
- Be professional
- Leave it at the door
- *Make yourself available*



► Investigative Ethics

"The time is always right to do what is right."

~Martin Luther King, Jr.





Commitment to Professionalism and Diligence

I. A Certified Fraud Examiner shall, at all times, demonstrate a commitment to professionalism and diligence in the performance of his or her duties.





Commitment to Professionalism and Diligence

- ***Professionalism***
 - Specialized body of knowledge/formal education
 - Professional admission standards
 - Social recognition
 - Standards of Conduct
 - National Organization advancing obligations of professional group






Commitment to Professionalism and Diligence

- ***Diligence***
 - Planning
 - Supervision
 - Avoid conflicts of interest
 - Perform with competence
 - Sufficient evidence to establish basis for opinion
 - Maintain confidential relations
 - Avoid distortion of facts





Legal and Ethical Conduct & Conflict of Interest

II. A Certified Fraud Examiner shall not engage in any illegal or unethical conduct, or any activity which would constitute a conflict of interest.






Legal and Ethical Conduct & Conflict of Interest

Illegal Conduct

- Not everything is obvious
- When in doubt, consult an attorney
- Not allowed to claim ignorance of law
- Considerations
 - Libel/Slander
 - Negotiating private deals
 - False Imprisonment

Unethical Conduct

- Take personal responsibility for decisions
- More than just ACFE code of professional ethics

Conflict of Interest

- Actual vs. Perceived
- Considerations:
 - "Double Agent"
 - Engagement on both sides of controversy
 - Family / Friends




Integrity and Competence

III. A Certified Fraud Examiner shall, at all times, exhibit the highest level of integrity in the performance of all professional assignments, and will accept only assignments for which there is reasonable expectation that the assignment will be completed with professional competence.



Integrity and Competence

• **Integrity**

- Honesty, trustworthiness, loyalty
- Independence of mental attitude
- Avoidance of conflicts of interest
- Admitting errors
- Professional differences of opinion



Integrity and Competence

• **Professional Competence**

- Knowledge of the philosophy and practice of fraud examination
- Training, experience, and skills
- Recognize indications of fraud
- Educate self about developments in field of fraud examination
- Knowledge about company under investigation
- Obtaining sufficient relevant evidence
- Persistence – be opposing counsel
- Free from interference in performance of duties
- Maintain professional skepticism





Court Orders and Testimony

IV. A Certified Fraud Examiner will comply with lawful order of the courts, and will testify to matters truthfully and without bias or prejudice.





Court Orders and Testimony

- ***Truth Telling***
 - Seek legal opinion(s), if necessary
 - Respond to questions asked – no more, no less
 - Avoid embellishment
 - Answer without bias or prejudice
- ***Compliance with summons or subpoena***






Reasonable Evidential Basis for Opinion

V. A fraud examiner, in conducting examinations, will obtain evidence or other documentation to establish a reasonable basis for any opinion rendered. No opinion shall be expressed regarding the guilt or innocence of any person or party.




Reasonable Evidential Basis for Opinions

- **Truth Seeking**
 - Internal Records
 - External Records
 - Understanding of controls
 - How transactions carried out & concealed, by whom, and to what extent (i.e. quantifiable \$\$.)
 - Prove or refute allegations




Reasonable Evidential Basis for Opinions

- **Guilt and Innocence**

- Present evidence clearly
- Identify conclusions as a result of that evidence
- Verdict is judge/ jury responsibility



Confidential Information

VI. A Certified Fraud Examiner shall not reveal any confidential information obtained during a professional engagement without proper authorization.





Confidential Information

- **Confidential Information**
 - All information obtained during course of work
 - No matter source
 - Access to sensitive information
 - Not bound when doing so would violate law
- **Privileged Information**
 - Information that cannot be demanded by a court
 - E.g. Attorney/Client Privilege
 - Attorney Work Product Privilege
 - Transmission of information through client or client's attorney
- **Proper Authorization**
- **Using information for personal gain**
- **Blowing whistle on clients/employees**



Complete Report of Material Matters

VII. A Certified Fraud Examiner shall reveal all material matters discovered during the course of an examination which, if omitted, could cause a distortion of the facts.



Complete Report of Material Matters

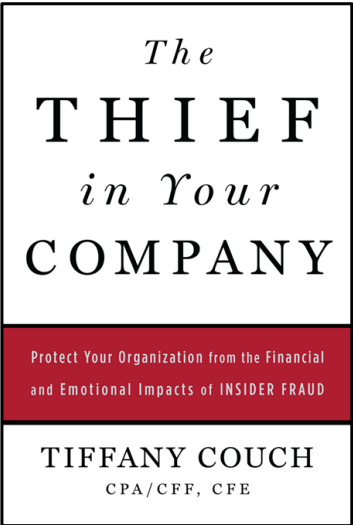
- **Obtain an understanding about:**
 - Users of the report
 - Information desired / considered important
 - Detail necessary
- **Distortion of Facts**
 - Insufficient evidence to make conclusions
 - When unclear, report should stress the tentative nature of the evidence and withhold judgment.



Professional Improvement

VIII. A Certified Fraud Examiner shall continually strive to increase the competence and effectiveness of professional services performed under his or her direction.





The
THIEF
in Your
COMPANY

Protect Your Organization from the Financial
and Emotional Impacts of INSIDER FRAUD

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Thank
You

*"The only way to do great work is to
love what you do." ~ Steve Jobs*

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