



UAE Internal
Auditors Association
JOIN LEARN & SHARE

ASSESSING FRAUD EVIDENCE

Advanced Skills for Auditors

16 May, 2023

'The sin of omission is as great as the lie'

Delaney





- NO using phones during sessions
- ASK QUESTIONS !!



- Senior Consultant & Trainer at IIA UAE
- Designated Team Lead for conducting External QA's (IPPF)
- TRIZ Level 1 certified (TRIZ User)
- Dubai Quality Award Team Leader
- Dubai Human Development Award Assessor
- Lead Assessor for ISO/TS16949 and ISO 9001
- Assessor, ISSO 14001, OHSAS 18001



- 'Listed Expert' *Cour pénale internationale* (International Criminal Court of Justice ('ICC'), The Hague
- Associate Professor of International Law
- Director, Financial Crime Management & Mediation. DETECTA. EUS
- Accredited Counter Fraud Specialist
- *Fellow*, Chartered Management Institute
- Chartered Institute of Arbitrators (Associate)

- ❑ **The course is NOT trying to replace your audit policies**
- ❑ **The course does NOT engage with the debate about the auditor's role**



The course DOES provide new insight into assessing and reporting evidence of fraud

The course DOES maximise skills with legality and ethical practices



- Demonstrate adaptability of internal auditing practices in terms of fraud,
- Understand the metrics of fraud and handle a range of evidential fraud types,
- Apply forensic evidential prioritizing skills to make informed decisions,
- Apply quality case management,

EXPECT THESE KINDS OF RESPONSES

“How Dare You”!!

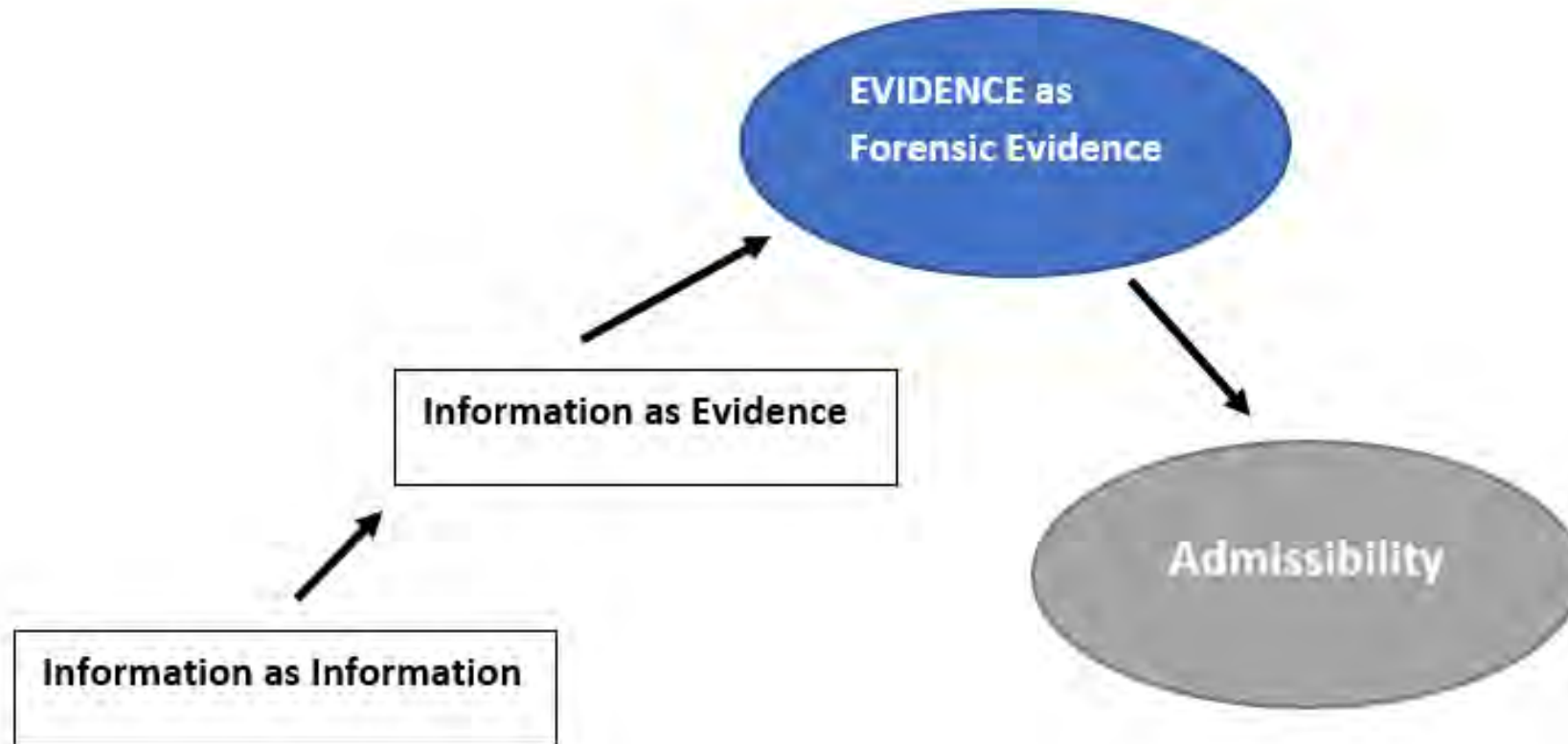
“not my job”

*“this is
“subjectivization”*

“the rules are not clear”

- The auditor's role is about creating a professionally-appropriate opinion or reaching a reasoned conclusion about compliance of processes, transactions, or 'other information'
- Achieved by enquiring in detail, observing carefully, and examining systematically. Checking (up) on, probing, delving into, exploring, researching, considering, studying, analysing, scrutinising, inspecting, surveying, checking, sifting, winnowing, going through (with a fine-tooth comb) information and data.adaptability of internal auditing practices in terms of fraud.

The 'Journey' from Information to Evidence



- By-passing Due-Diligence procedures



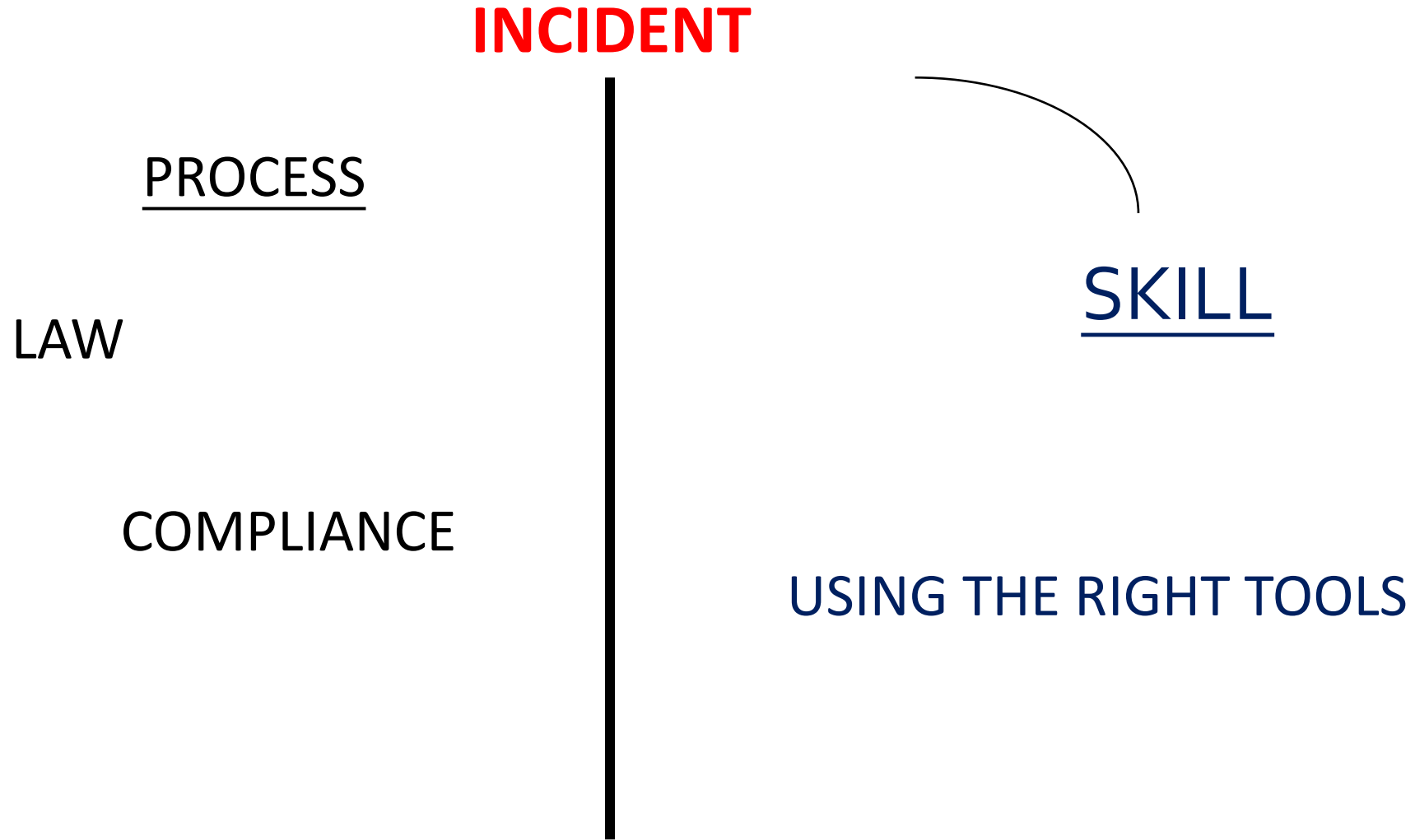
Data theft

Password-sharing

'Template signature sharing'

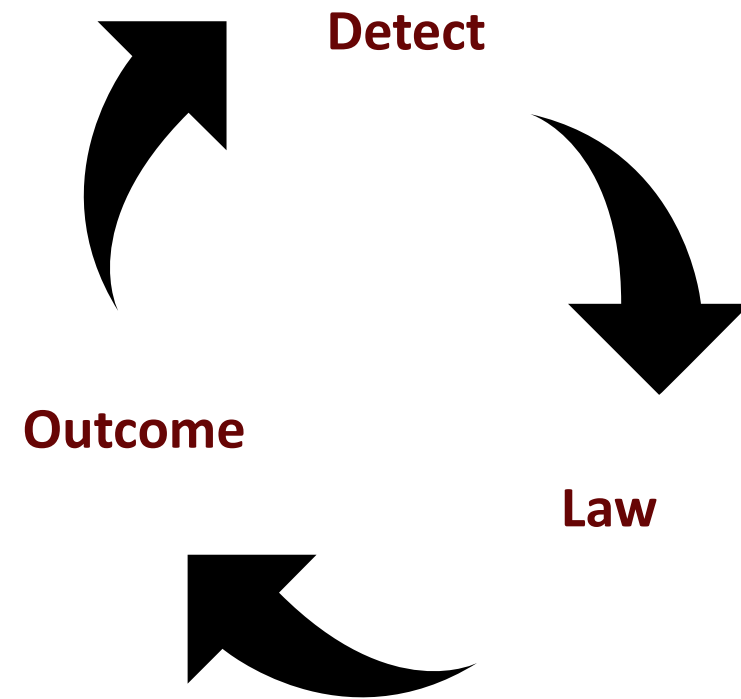
Record falsification

- N a team supervisor at the regulatory authority with 15 years experience is found to have 'waved through' licence applications for 2 friends for a mandatory financial services licence.
- N says *"sorry, I was under pressure"... it was a 'one-off'"*



1. Obtaining evidence you did not have previously,
2. Affirming evidence already obtained, i.e. admits to forging signatures, or denies the evidence presented but it is sound enough to stand on its own without being admitted to, or becomes evidence adduced by testimony to make it acceptable evidence, or Directing the auditor to other reliable sources of evidence,







- ✗ Fraud is “*complex*” or “*complicated*”
- ✗ Fraudsters are “*born criminals*”

THE FRAUD TRIANGLE

Pressure
Motivation or Incentive to
Commit Fraud

Rationalization
Justification of Dishonest
Actions



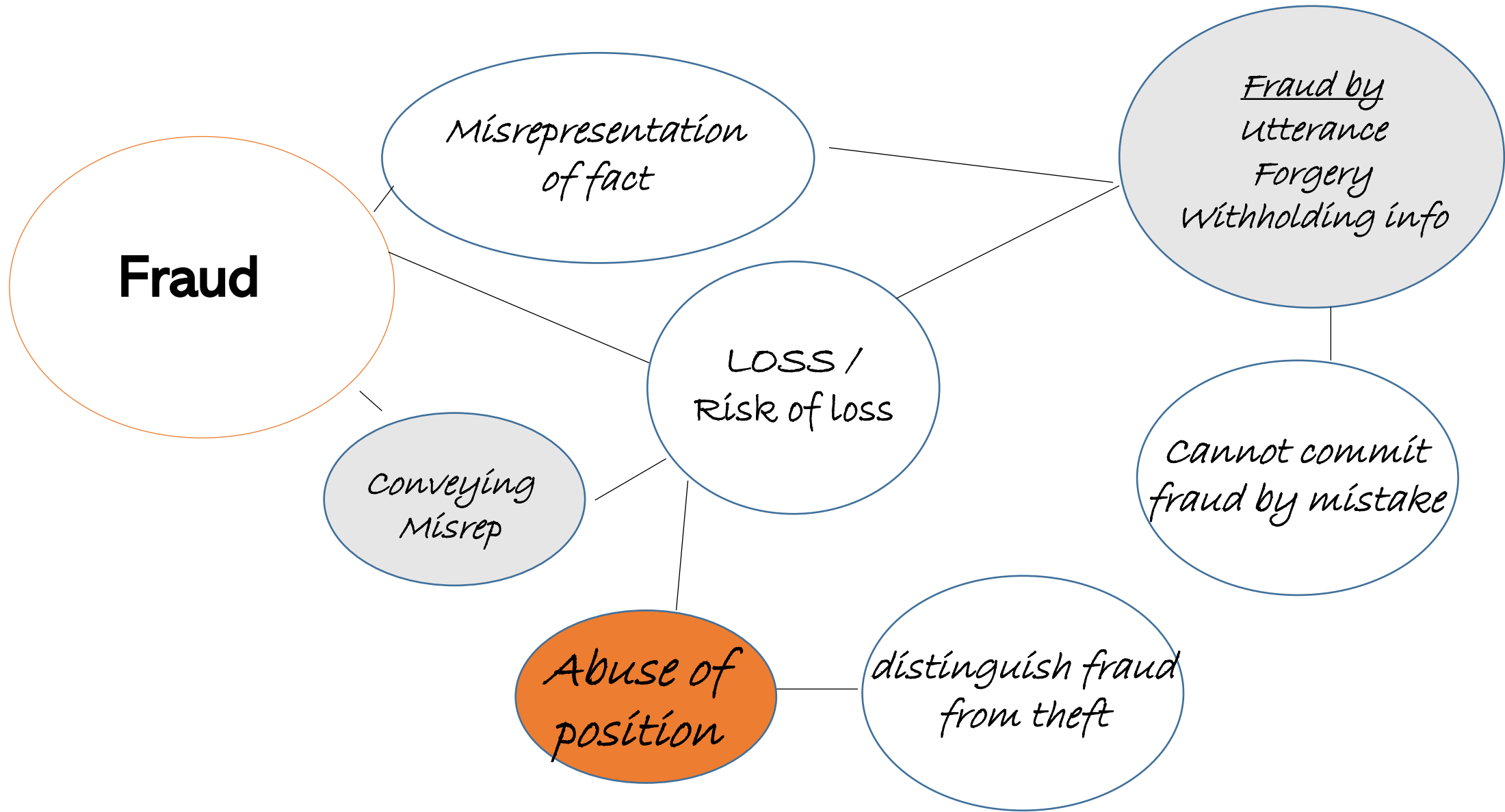
FRAUD

Opportunity
The Knowledge and Ability
to Carry Out Fraud



Misrepresentation:

- Strategic **intention** to create in the mind of the other person a false perception of reality.
- Resulting in loss or gain or risk.





NOTE: It is impossible to commit fraud;

- by attempt
- by 'mistake'

Do not confuse 'negligence' with withholding

- **Not always defined as a crime!**
- **A facilitator of fraud**





- Dishonestly
- Appropriates / Property

- **Corporate Theft**
- **Data 'the new cash'**



- Bribes / Kick Backs
- **Psychology of a bribe**
- **Conflicts of Interest**



- Criminal *disguises* the nature of property from criminal activity
- *Moves* money from crime to avoid it being identified as proceeds
- **It is all about *concealment***

(1), Skimming, is 'off the books' crime when an offender intercepts incoming payments and deducts a 'commission'

(2), Invoice fraud. When an employee sets up fake invoices to pay themselves or a third party from the company's accounts.

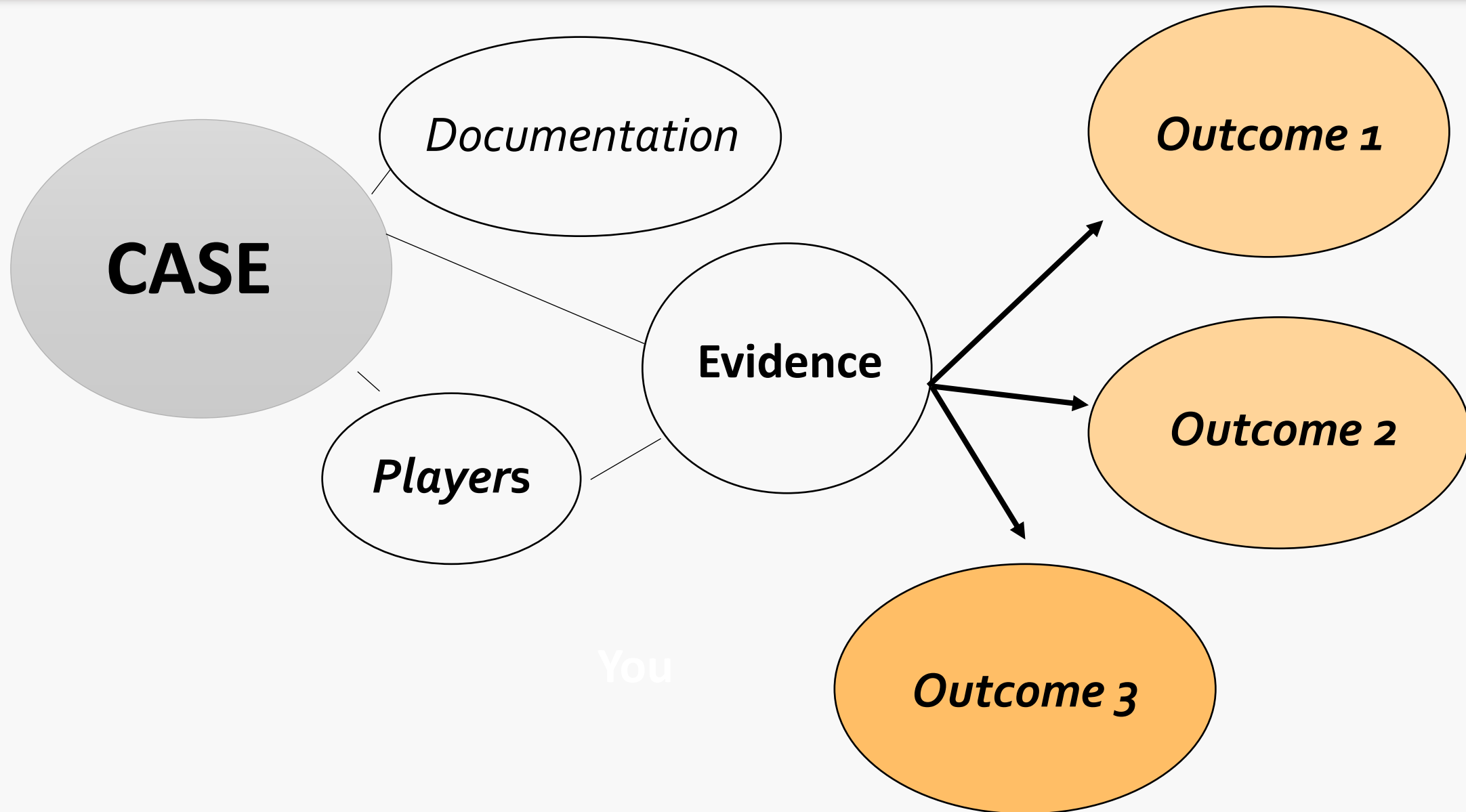
(3), Data Violation. 'Data as the new cash'.

□

(2) Mis-stating assets and Liabilities



- ... the criminal alteration of a company's financial statements in order to manipulate a company's apparent health or to hide profits or losses
- **Overstating revenue:** failing to record expenses, and misstating assets and liabilities,
- **Unrecorded expenses**



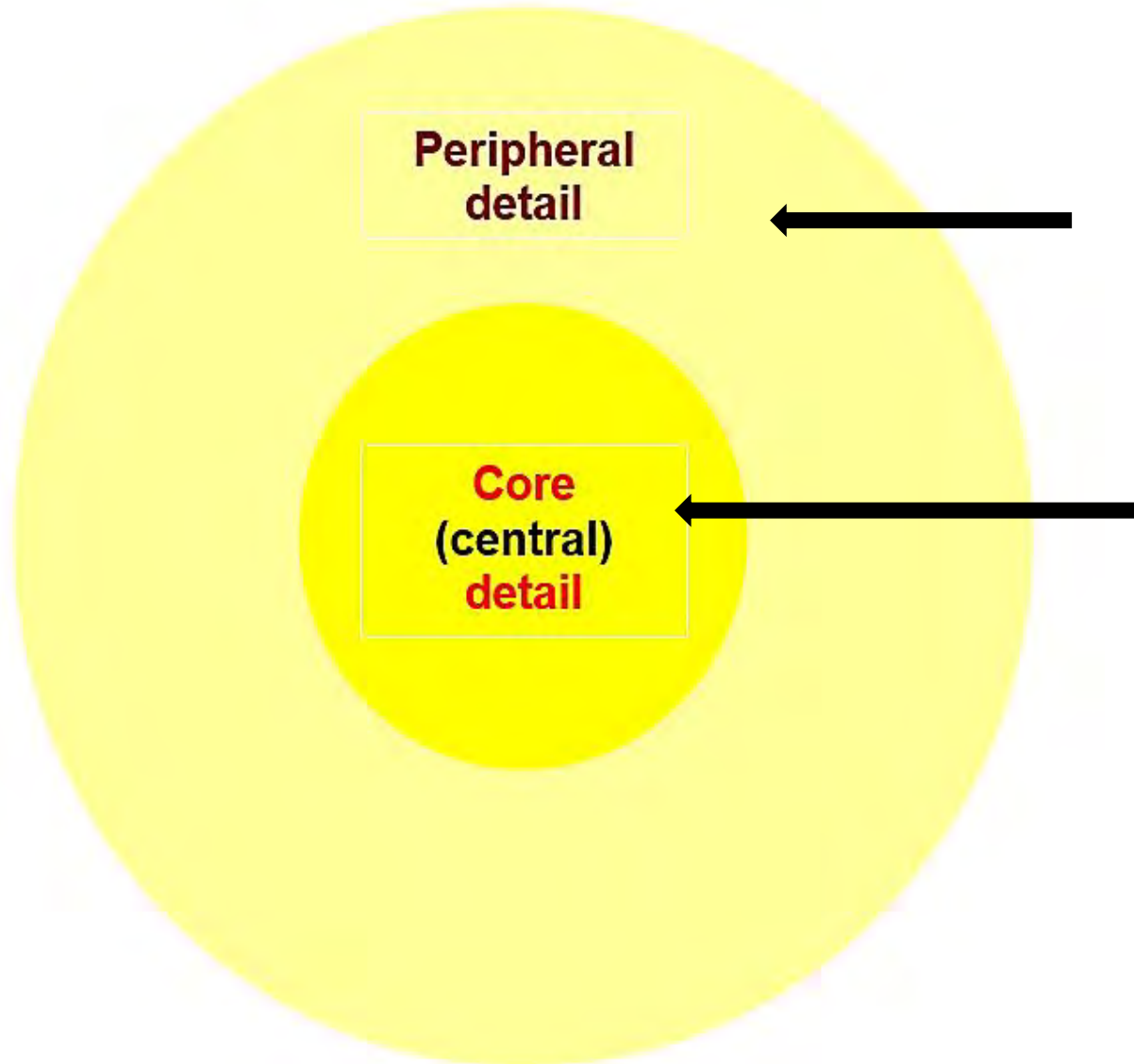
Questions?



- ***“The means by which any point or fact in issue may be proved or disproved in a manner complying with the legal rules governing the subject”***



- **Facts in Issue**
- **The ‘Best Evidence’ Rule**
- ***Admissibility?***



- **Peripheral detail** forms the supporting aspects and items of the case.
- **Core detail** of the facts leads the case when it is presented.
- Types of evidence does NOT mean that one type of Evidence overrides another.
- **The facts dictate the evidence and its admissibility.**

- L starts a new job as Sales Manager for an IT company. After 6 months L is transferred to another office in another region, and goes onto the payroll after induction. But the HR department from his previous office overlooked to stop his previous salary payments. The HR Manager was on friendly terms with L and deleted the payment records...
- Consequently, L is paid a 'dual-salary' for 6 months before it is discovered in an audit.
- The HR manager said the documents were deleted 'in error'

1. What is the core detail?

2. How would you overcome evidential hurdles?

DIRECT / PRIMARY EVIDENCE



- Invoices
- Accounts
- Forged Contracts
- Insurance claim forms
- Data recovery

- Testimony

Saw, Heard



A money laundering reporting officer ('MLRO') creates a suspicious activity report (SAR) to the regulator.

- ❑ **The Direct evidence is the 'doing', the production of the report.**
- ❑ **The Primary evidence is the report itself,**

- ❑ **The AUDIT TRAIL is both the above**



.... that proves a fact or event indirectly.

It does not provide direct proof of the case and must be evaluated along with other types of evidence to prove a crime.

Circumstantial evidence can be very good evidence and should not be underestimated!

A senior management team have a meeting during which two members raise an issue of ‘keeping a customer happy’ by offering them a ‘discount’ to retain a service contract with your company.

It turned out that accounts records were then altered to show an incoming payment from the contractor as a ‘liquid asset’.

Inferences drawn from **FACTS** :

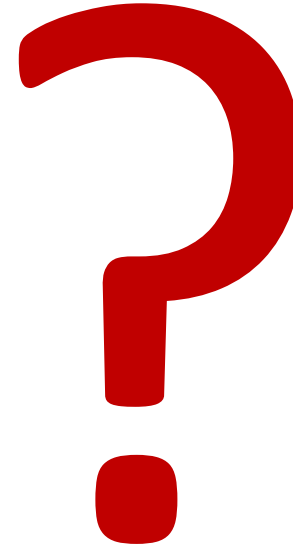
- **Links with Documents**

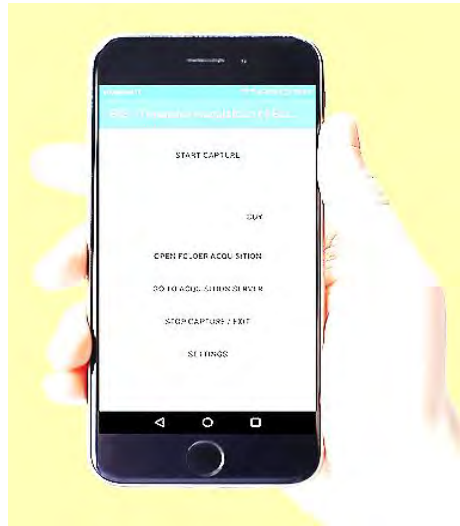
- **Expert Evidence**



- **The 'extraction' of information that needs to be uplifted to a state of admissible evidence for a decision maker.**

- How 'close to the action'?
- Idealist?
- Involved criminally?
- One who is no-longer benefiting?
- Legalised Financial Rewards? (i.e. SEC / Sarbanes Oxley)

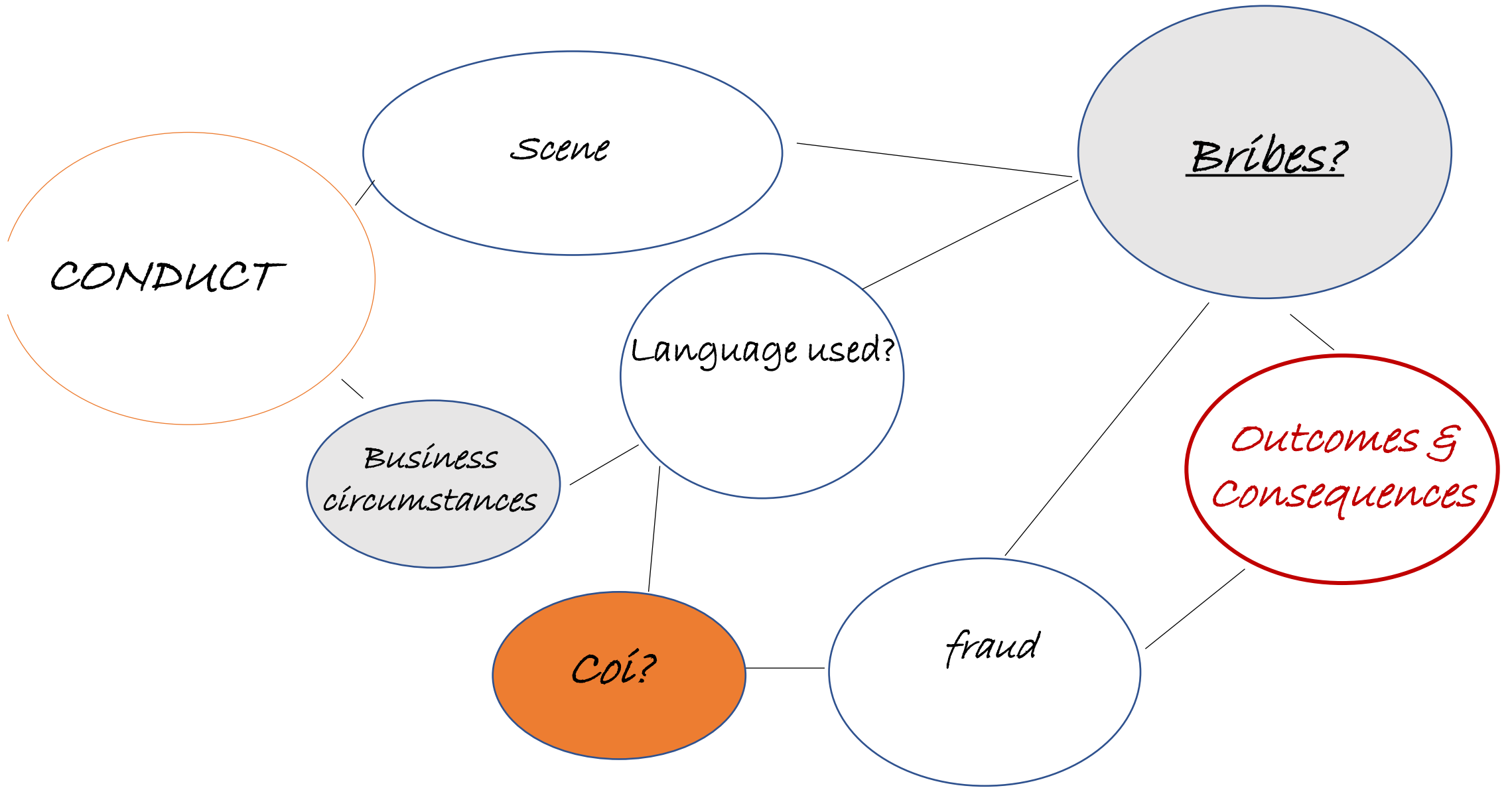


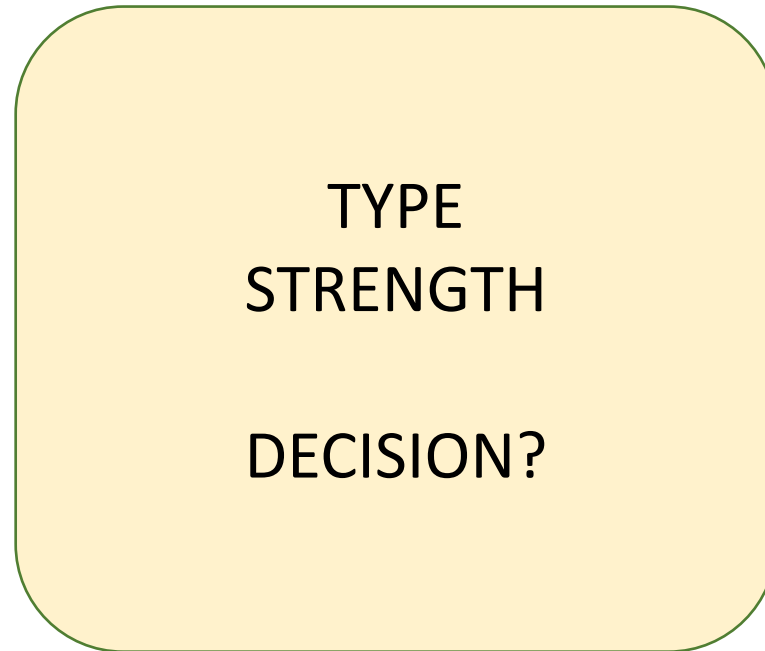
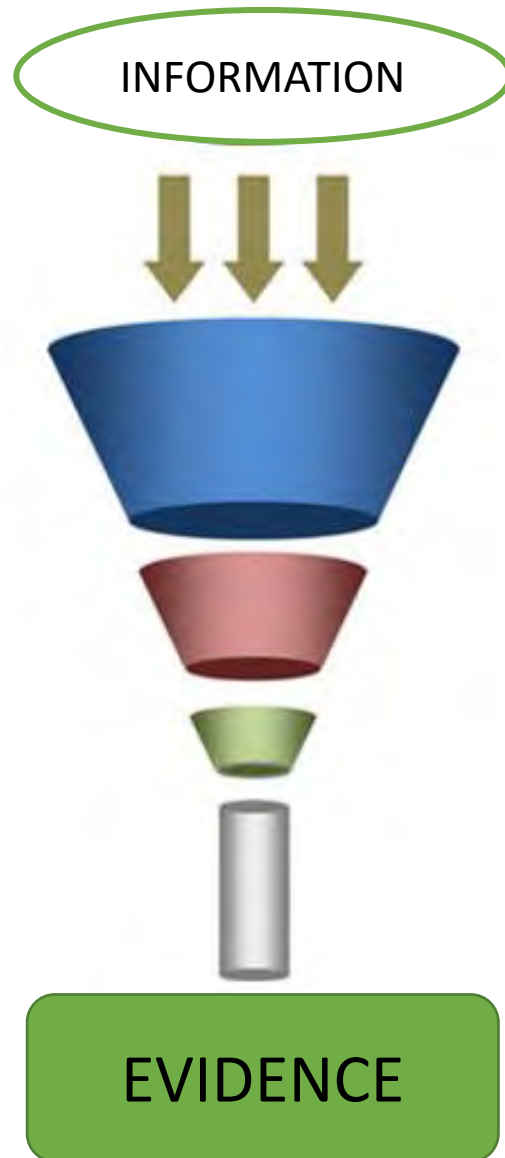


Data

Meta data

How does it fit with other evidence?







Case Study #2



Rorton International Pty Limited
Level 39, 2 Park Street, Sydney NSW 2000
Telephone : 0475 91293

Invoice No.
0004

ABN 92 7864 5432

INVOICE

Customer

Name Mr H. Snyderin, Purchasing Director
Address Megaton Corporation Pty Ltd
198 Castlereagh Street
Sydney, NSW 2000

Date 24-Oct-09

Assess and Explain

Comment in detail about any inferences from the red flags

Description	TOTAL
Marketing consutlancy fee as agreed	\$ 10,000.00



Please pay immediately
H Snyderin
25/10/09



SubTotal \$ 10,000.00

Please pay to :

Beneficiary Bank: Maybank International
(L) Ltd, Labuan
Swift Code: MBBEMYKA
Account No: 361663920
Beneficiary Name: Rorton International
Beneficiary Account No: 102010028993

TOTAL \$ 10,000.00

Office Use Only



Questions?



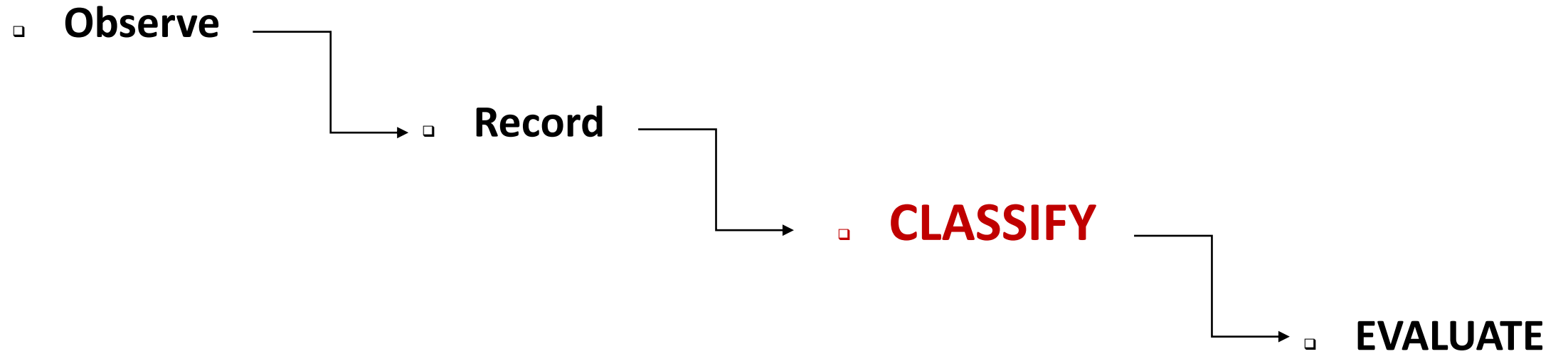
Overcoming Challenges

They start with you

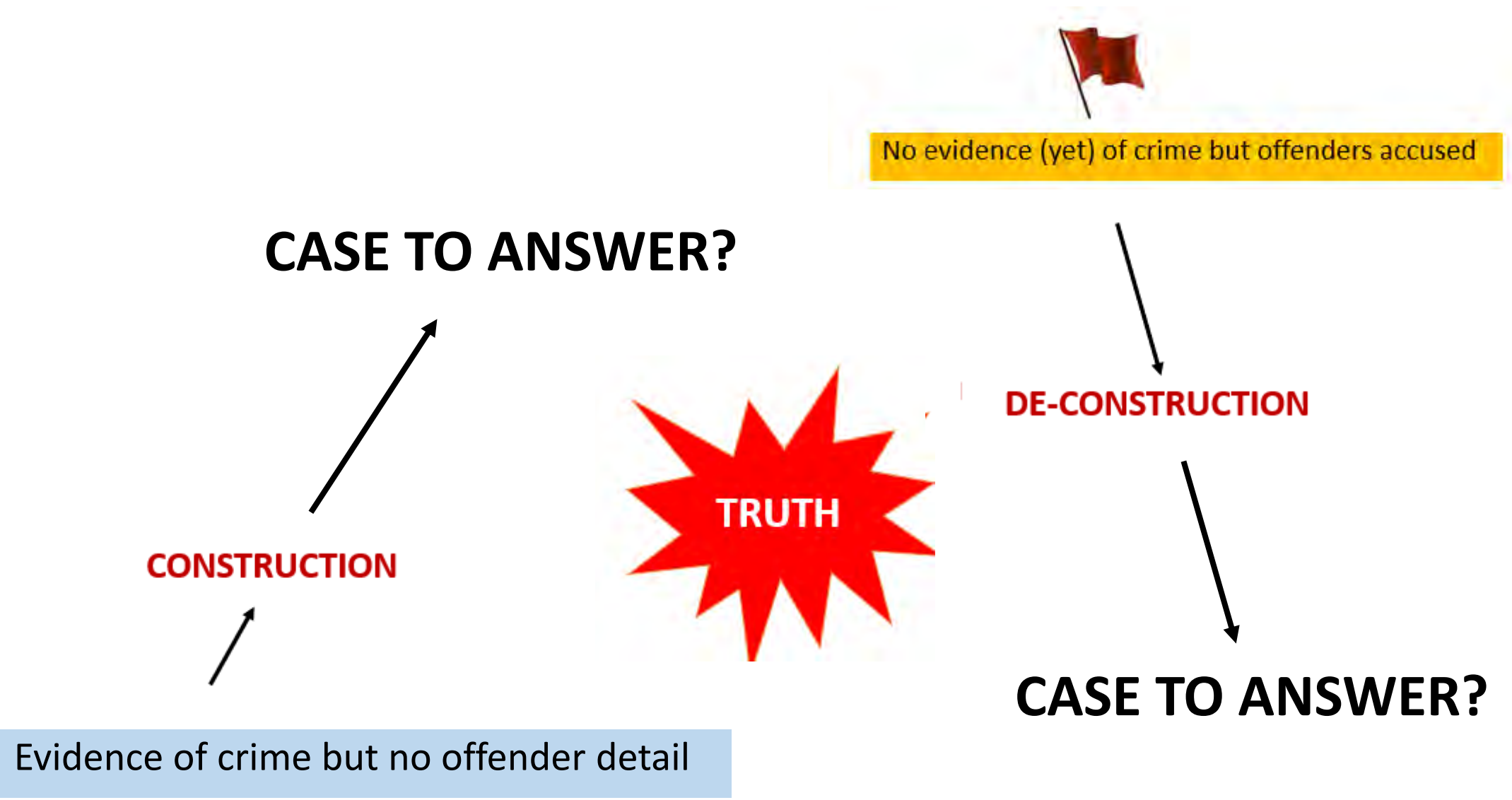
Tolerance levels?



- **Knowing where to start**
- **Knowing when to stop**



- The average person hears between 10 and 200 lies per day.
- Strangers lie to each other three times within the first 10 minutes of meeting, on average.
- Because someone is lying does not necessarily mean they are committing fraud



Knowledge Detail

- Identities
- Locations
- Objects
- Relationships
- Routines
- Rituals
- Plans & Intentions



'Time and Event' Detail

- Actions
- Interactions
- Reactions or responses
- Utterances
- Verbal Exchanges

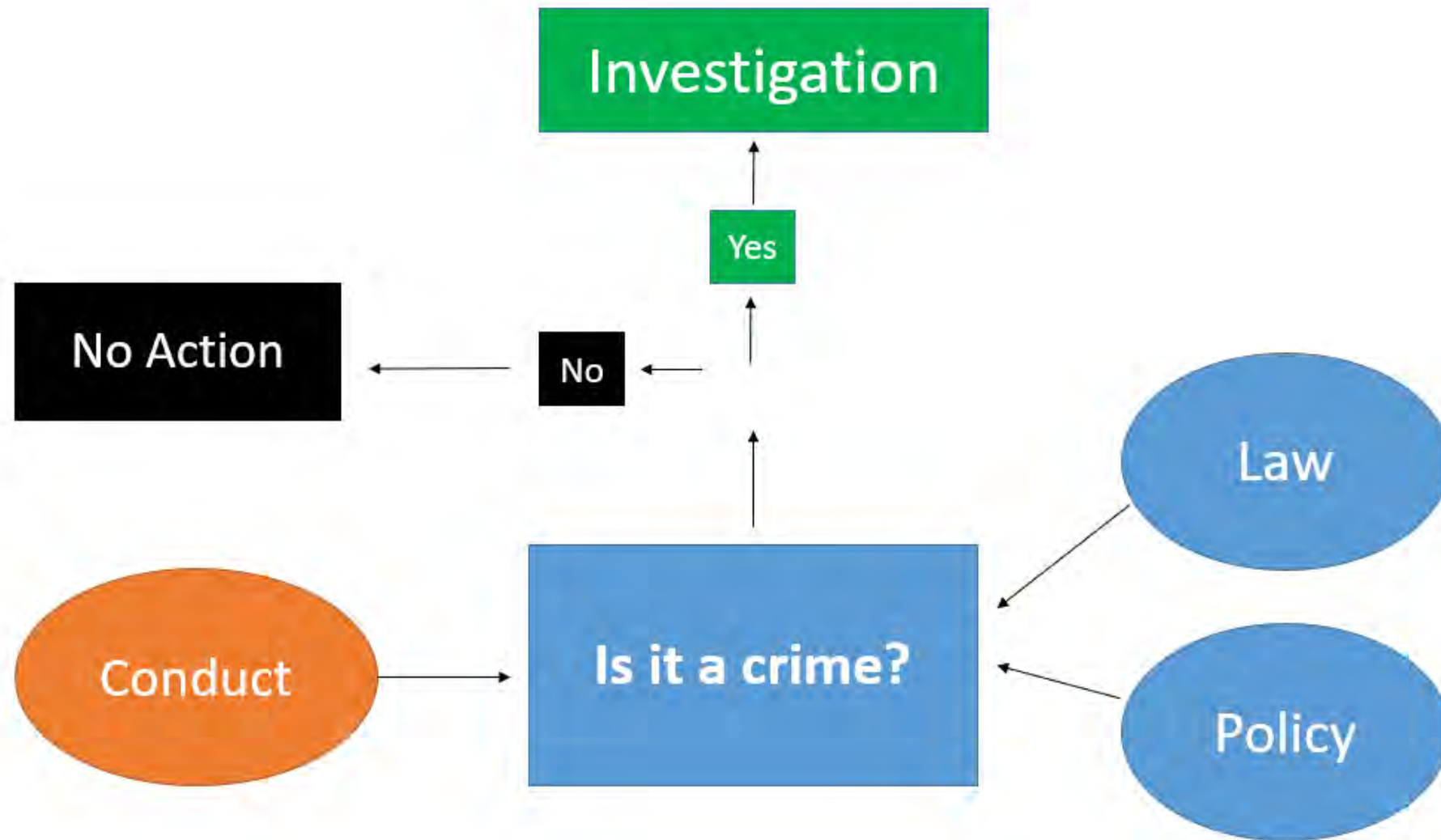
"I'm not a fraudster, I'm a misunderstood eccentric..."



- Checking Back
- What misrepresentations took place?
- HOW were they conveyed?
- Is this the cut-off point?



- *Assess and Explain*



Questions?





- × *“No-one could have seen this coming”*
- × *“We couldn’t have legislated for this”*
- × *“Everything is fine here, why go looking for problems?”*
- × *We’ll worry about it if it happens’*
- × *‘Won’t people think we have a problem?’*

- **Delegation**
- **Evidential Security**
- **Data & Confidentiality**



- Ethical behaviour
- Do not embellish evidence
- Do not try to influence the outcome of a case
- Do not be personal
- *Never* write on or mark original documents / evidence

- Review this investigation. Your findings?

E an auditor finds shortfalls in incoming payments. E makes copies of these and distributes these to the affected departments (finance, procurement) – E has an original invoice from the case and writes comments on it, including *“this is the one I was looking for”* and with a yellow highlighter marks the name of **finance officer B** next to it.

B is dismissed for gross misconduct (fraud) but appeals to the board.



- 1 – the quality of the investigation
- 2 – the quality of the information on handover to the Board?

- Chain of custody
- ‘Sanitizing’ the information
- NDA agreements
- Forensic standard



- **IDEA Method**
- **I - IDENTIFY**
- **D - Define**
- **E - Explain**
- **A - Apply**

- **I – IDENTIFY** the issues in plain language.

This case arises following an audit of ... Department when evidence of fraud was discovered by fraudulent invoicing by two persons in collusion on two occasions in May 2022.

- **D – Define**

The conduct concerned violates section 1.1.A of company policy defining compliance and awareness of fraud and the governing laws and criminal code of (...country)

- **E – Explain**

It is alleged that the method of fraud was done by inventing fictitious persons in a project and exaggerating figures for the costs. Completed by diverting company monies to personal accounts. It is contested that the conduct was not in error but by deliberation on the facts.

- **A - Apply**

The evidence is led by production of documents - and a forensic report from the IT Director.

- *Assess and Explain*

- *Assess and Explain*



“Train hard, fight easy”

Alexander V. Suvorov

Russian Field Marshal, 1729-1800