

How to Detect Fraud?



General Audit Procedures and Their Limitations;
Specific Procedures and Methodologies

General Audit Procedures and Their Limitations

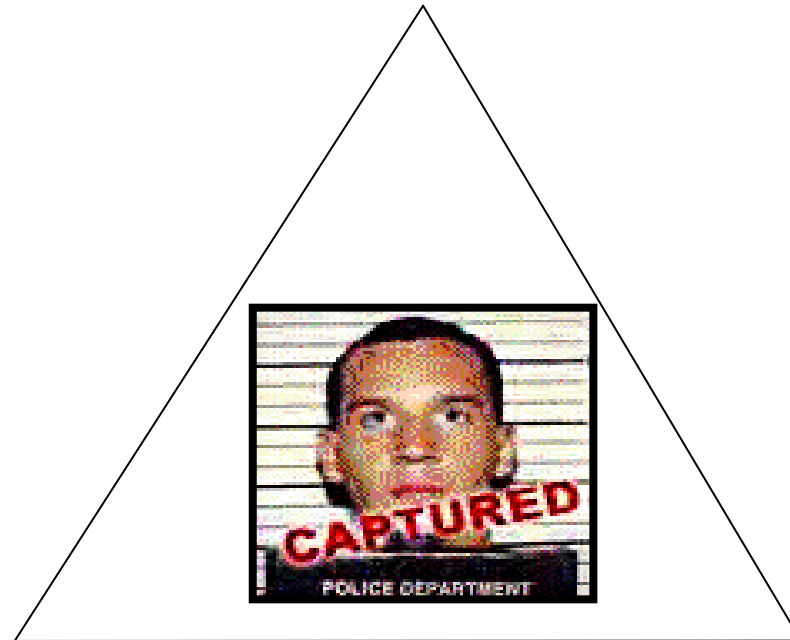
- Substantive Audit Procedures

Specific Audit Procedures and Methodologies

- Fraud Triangle
- Red Flags
- Fraud and Industry Knowledge/Experience
- Fraud Risk Assessment
- Fraud-Scan®

- ◆ Inquiry
- ◆ Observation
- ◆ Inspection
- ◆ Confirmation
- ◆ Recalculation
- ◆ Reperformance
- ◆ Analytical Procedures

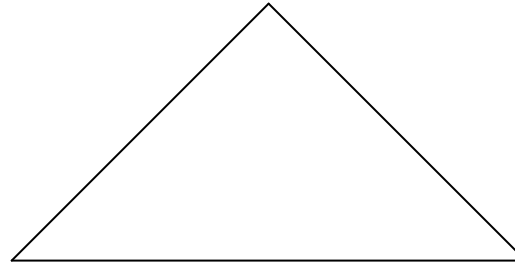
Incentive/Pressure



Opportunity

Rationalisation/Attitude

- meet financial targets or third party expectations
- financial stability threatened by economic, industry or entity operation conditions
- personal financial obligations



- complex or unstable structures
- weaknesses in internal control
- inventory items that are small in size, of high value or in high demand
- inadequate management understanding of information technology

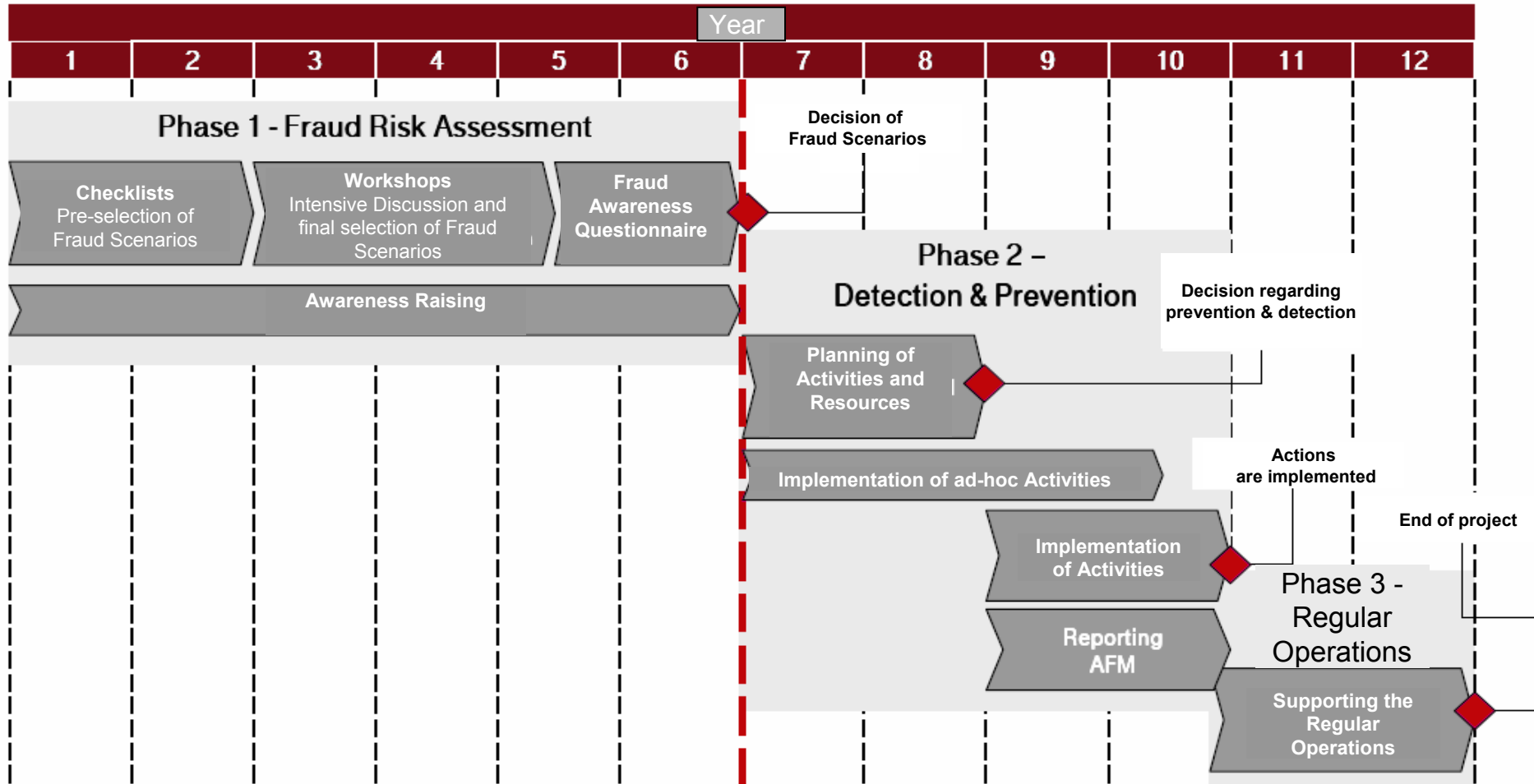
- tone at the top; overall culture
- behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee
- failing to correct known internal control weaknesses

- ◆ You must know how fraud is perpetrated and how it is concealed
- ◆ You have to be familiar with the industry



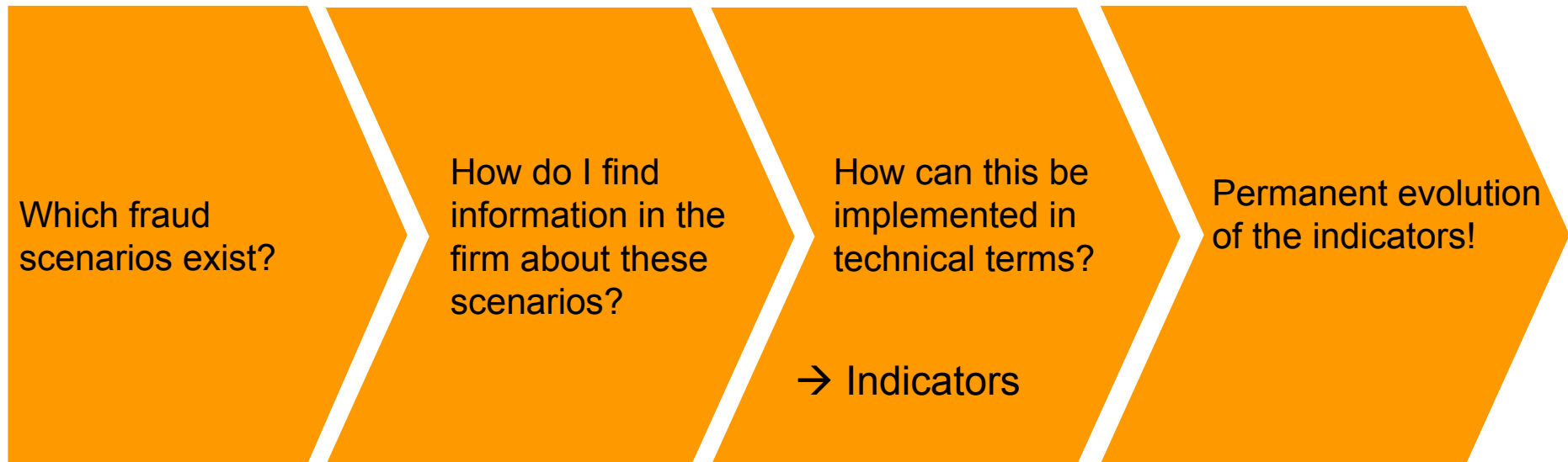
- ◆ Structure of the Risk Assessment Team
- ◆ Fraud Risk Identification
- ◆ Assessment of the Likelihood and Significance of Identified Fraud Risks
- ◆ Response to Reasonably Likely and Significant Inherent and Residual Fraud Risks





By means of structured data analyses the evidence of fraudulent acts should be identified in the data of a firm.

Implementation:



Balance Manipulation / Fraudulent acts / Resulting combination

Standard
indicators

Example:
User Analysis

Plausible
indicators

Example:
Benford, adjustment
of data fields, etc.

'Hard'
indicators

Example:
Contra account
analysis, adjustment
of original data

Reference
databases

Example:
Lists of sanctions
Lists of addresses

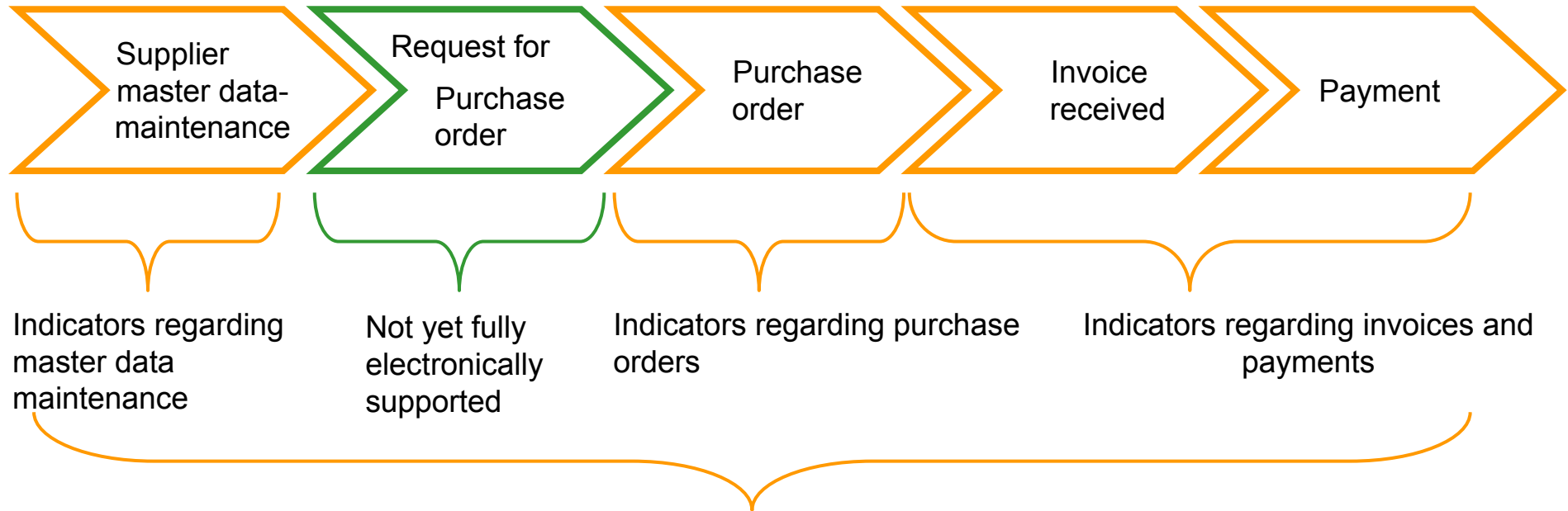
Individual
indicators

Example:
Branch specific

Global assessment of data analysis based on the results

Indicator	Scenario
Revenue peaks before period-end	Excessive revenue recognition, cancellation in following period
Revenue before delivery	Anticipated revenues
Benford's Law	Discovery of fictitious amounts
Fictitious customers	Veiling of fictitious revenues
Cash flow of critical accounts	Contra account analysis
Conspicuous entries	Non-personalized User IDs, missing descriptive texts

Purchase Process



Master data
- time-oriented -

- Which payment methods are possible?
- Are there alternative payment recipients?
- Does duplicate bank details exist?
- Does more than one creditor exist?

Original data

Master data
- gap-oriented -

- Which critical master data fields were changed more often or rarely?
- Which critical master data fields were deactivated on short notice? And when?

Change slip

Change slip

Transfer data
- transaction detail -

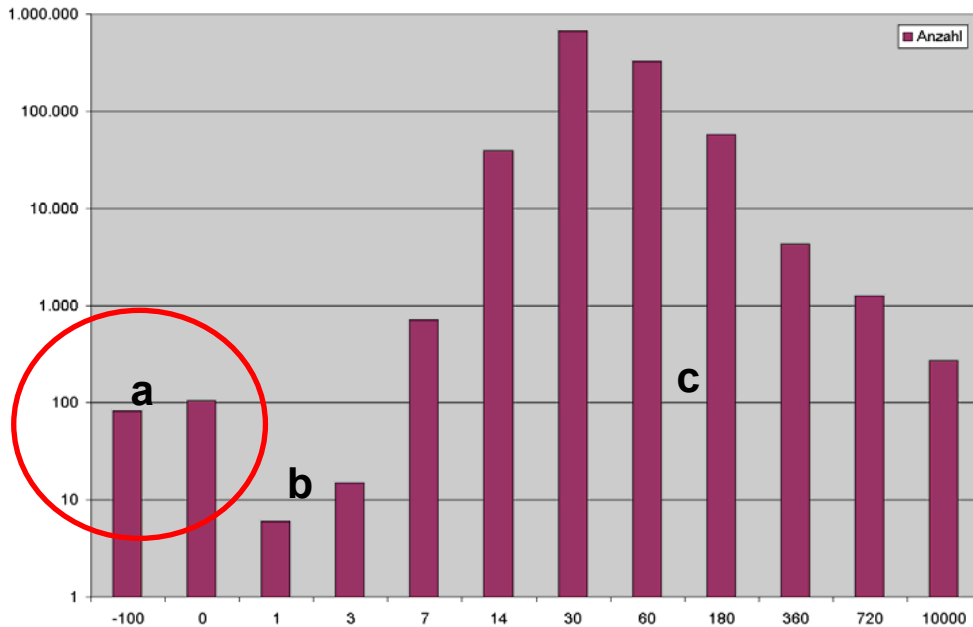
- Which payments occurred between two close consecutive changes ?
- Which creditors are involved with large amounts?

Transaction
Transaction
Transaction

Transaction
Transaction
Transaction

Transfer data
- function division -

- Which users are involved in the process?
- In which period were the critical slips issued?
- Can consistent patterns be recognized?



Conspicuous items:

(Settlement carried out at a time through payment)

Date of settlement before voucher date

Voucher date = date of settlement

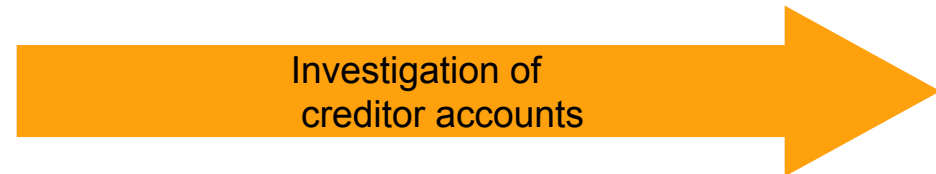
Date of settlement after voucher date

Result:

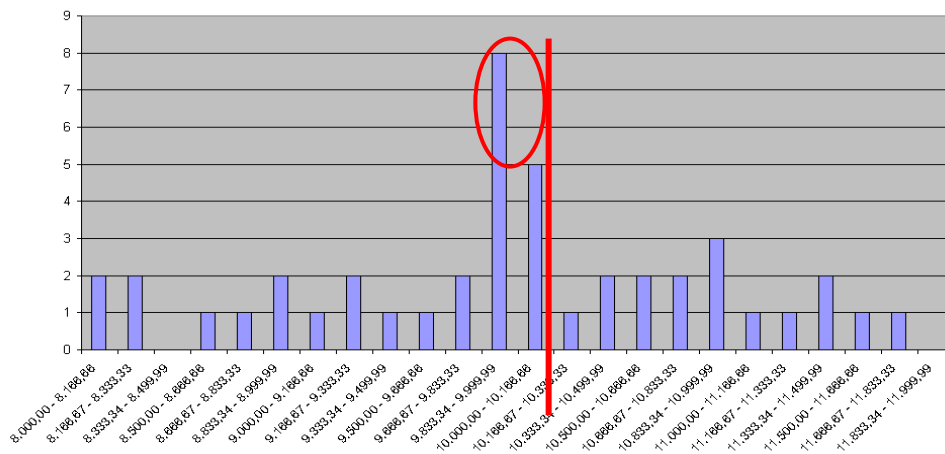
a) Indicator of input error / advance payments

b) Identification of directly settled invoices

c) Settlement after payment target



Histogramme Genehmigungsgrenzen Kreditoren
Symmetrische Histogramme um verschiedene Genehmigungsgrenzen
Genehmigungsgrenze 10000



Conspicuous items:

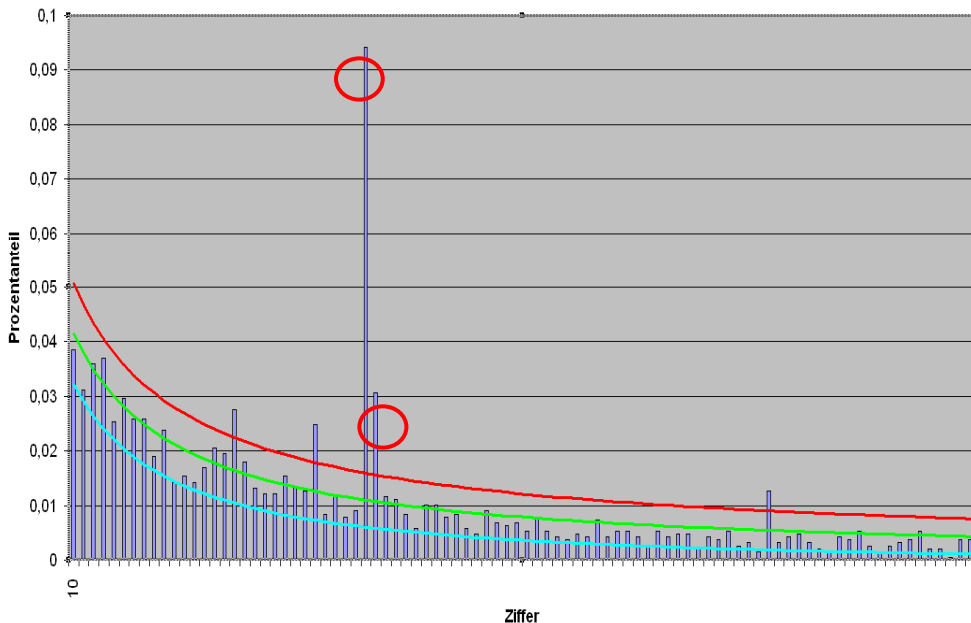
High amount of vouchers below a fixed approval limit

Result:

Necessary audit in purchasing area (Splitting of orders, arrangement purchaser ↔ creditor)



Zahlungen Benford alles
Details
F2



Conspicuous items:

Strong deviation of amounts for incoming invoices from statistical assumed distribution of values

Result:

Identification of services not rendered by a sub-supplier



Benefits of Disaggregated Analytics



- can be used for preventive and investigative purposes
- facilitates the analysis of large amounts of data
- identifies process and control weaknesses
- allows assessment of data quality
- provides objective data for further analysis
- reduces dependence on highly trained/experienced staff
- delivers an audit trail and is repeatable
- facilitates finding out what's really going on

- ◆ Fraud-Scan® is an integrated approach to identifying indications of potential frauds

- ◆ Fraud-Scan® is based on
 - Methodology
 - Expert knowledge
 - Software tools to perform mass data analysis





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Thank you for your time and attention !

