



Fraud & Corruption

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IIA Australia white papers

- Fraud Risk Indicators
- Corruption Indicators in Internal Audit
- Corruption related risks in decision making
- Fraud & Corruption Risk Assessments
- Conflicts of Interest – a framework



Understanding

- Deep understanding of auditee
- Observation
- Analytic Review
- Interviewing
- Be a bit of a bulldog
- Persist until you are satisfied



Fraud Triangle

- Opportunity
- Attitude / Rationalisation
- Pressure



Pressure

- Financial pressure
- Social / Peer pressure
- Political pressure
- Organised crime
- Psychological pressure
- Management / political
- Implications for audit/management?



Wells Fargo

- 2,000,000 false accounts
- 5,000 employees fired
- 2011 – 2015
- Concerns had been raised



Opportunity

- Breakdowns in internal controls
- Ineffective but reassuring controls
- “Blindspots”
 - information
 - Social engineering
 - Trusted grandmothers & superheroes
 - Management attitudes/actions
- Implications for audit/management?



Opportunity - COSO

Committee of Sponsoring Organisations



COSO – 5 Components

- Risk assessment
 - Control activities
 - Information and communication
 - Monitoring
 - Control environment
-
- Implications for audit/management?



Opportunity – Risk Assessments

- Funds In
- Funds Out
- Things we own or use
- Information
- Decisions
- Perceptions



Opportunities

- Clarify what is / is not acceptable
- Reporting framework
- Transaction reviews / checks
- Big picture analysis & review



Attitude / Rationalisation

- Attitude to fraud and corruption
- Attitude to the organisation
- Attitude to management, workmates & controls

The logo graphic consists of a vertical black line intersecting a horizontal black line. To the left of the intersection, there are three overlapping squares: a yellow one at the top, a red one in the middle, and a blue one at the bottom. The word "Volkswagen" is written in a bold, blue, sans-serif font to the right of the graphic.

Volkswagen

- Software to defeat testing – 1370 sec.
- Nitrogen Oxide 40 X limit
- 20 deaths per year
- 45,000 tons of Nox
- From 2009 to 2016
- 6 generations of defeat devices
- 40+ employees destroyed evidence



Volkswagen

- “It wasn’t an ethical problem. I can’t understand why you say that?”
- “We had not the right interpretation of the America law.”
- “We didn’t lie. We didn’t understand the question.”



Volkswagen

- “Fines only a moderate risk”
- “Fines in this amount [\$91 per vehicle] are not even remotely capable of influencing the share price of a globally operative company such as Volkswagen.”



Attitude

- Banca Monte del Paschi di Siena & Deutsche
- BCCI
- RTA – bribes & information
- Libor
- KPIs



Attitude

- Policies
- Investigation
- Tone at top, middle & bottom
- Training
- Support employees' ethics



Key Points

- Understand the area – what really goes on, not what everyone tells you
- Use the fraud triangle as a double-check
- COSO is useful in fraud control & audit



Assurance in decision-making

Controls over preliminary activities, allocation, the decision and post decision activities

Risks of (decision maker + decision matter + environment)