

Participants Survey: Focus on Fraud

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Internal Audit Training of Trainers

CFRR >>

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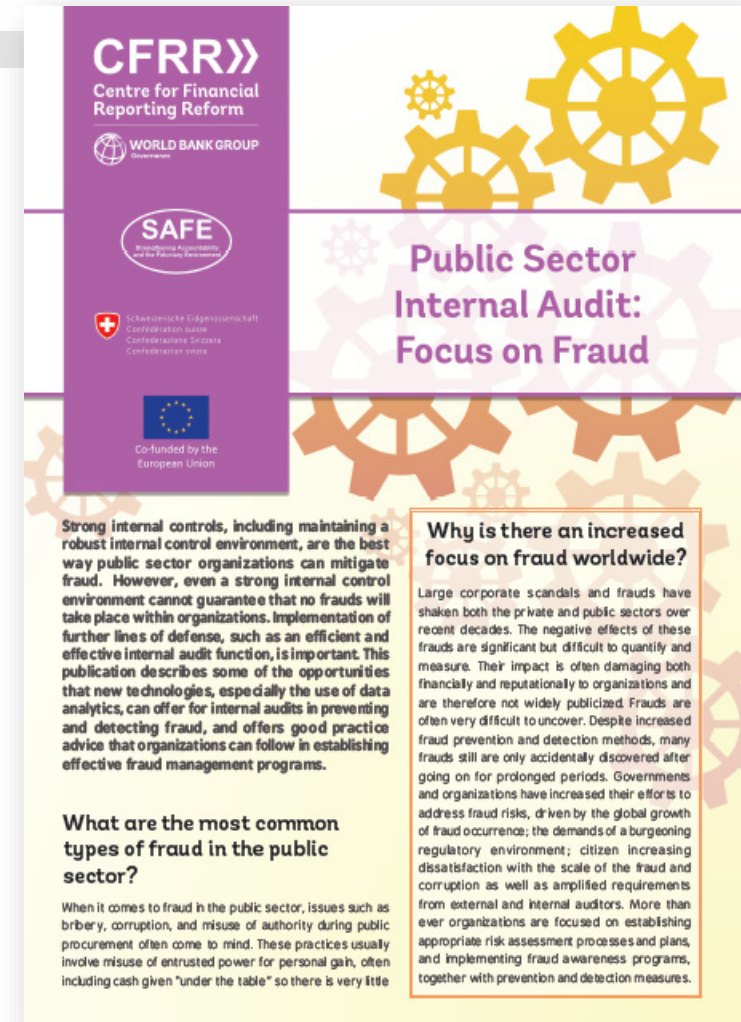
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Survey Highlights

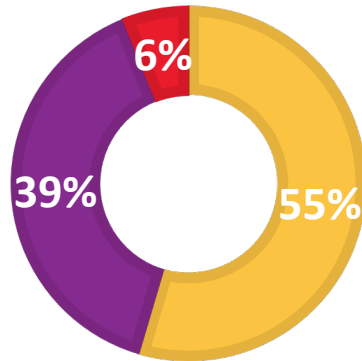
- » A survey of participants was conducted post Fundamental stream workshop
- » The survey covered 22 questions addressing a range of topics focusing on public sector fraud
- » Almost everybody responded (92% response rate or 33 participants provided inputs)
- » These inputs were collected to develop a IA TOT CoP Good Practice Knowledge Resource with a focus on fraud



Frequency and Source of Fraud

Frequency of Frauds

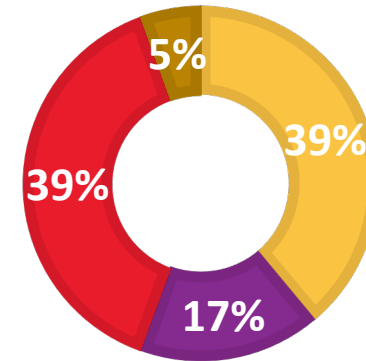
■ None ■ Less than 5 ■ 5 or more



» Most reported that they have not encountered instances of fraud while performing their professional duties

Who Committed the Fraud?

■ Employee ■ Management ■ Combination ■ External Party



» Observed frauds are mostly committed by employees and collusions between management and employees



Most Common Types of Fraud in Public Sector

Most Likely Type of Fraud



» Procurement Frauds are by far the most commonly cited fraud in the public sector with 93% of respondents selection



Segregation of Duties

- » Segregation of duties is a key element of internal control environment and clear roles and responsibilities to prevent one person to be responsible for authorization, execution, posting and controlling activities need to be in place;
- » Suggestions to improve included:
 - » Clear managerial accountability for defining roles and responsibilities;
 - » Adequate staff with appropriate qualifications, education, capacity and integrity of civil servants;
 - » Clear job descriptions, with appropriately defined authority and responsibility of each role;
 - » Defining targets for each employee and adequate systems of incentives;
 - » Relying on IT technologies.



Managing Conflicts of Interest

- » Suggestions to improve included:
 - » Prescribing very clearly what constitutes a conflict of interest and how it is documented, monitored and reported;
 - » Necessity to timely report conflicts of interest;
 - » Staff needs to be appropriately trained to identify and mitigate conflict of interest;
 - » Introducing a strong ethical code / culture in the organization;
 - » Introduce anonymous channels to report conflicts of interest.



Most Common “Red Flags”

Red Flags



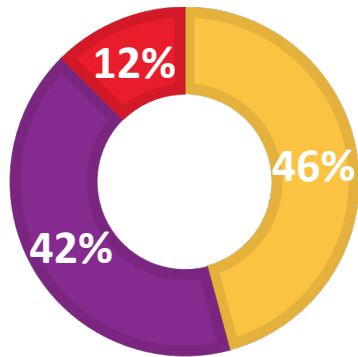
» External pressures, poor IT systems and non equal application of legislation / policies across entities are the top ranked “Red Flags” in the public sector.



Fraud Training & Focus

Fraud Training

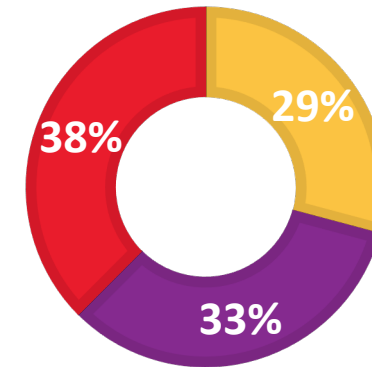
■ Never ■ Once in 5 years ■ Every year



» 46% of internal auditors reported that they never received specific fraud training

Fraud Focus during Internal Audits?

■ Yes ■ Sometimes ■ No



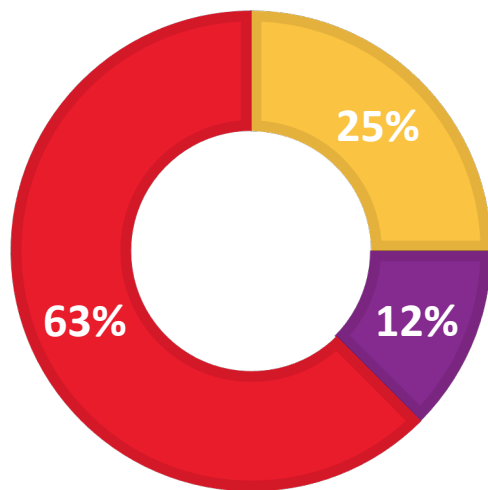
» Only 29% respondents reported they focus on fraud in their internal audits.
» Using Data Analytics, IT tools and additional training are considered critical



Fraud Risk Assessment & Communications

Fraud Risk Assessments

■ Yes ■ Tick Box exercise ■ No



» Week Fraud Risk Assessments - 25% responded that management performed a robust fraud risk assessment in organizations

» Week communications - 62% of external auditors and 87% of financial inspectors do not reach out to internal audit teams to inquire of known or suspected frauds



Fraud Management: Good Practices (1/2)



Promoting a strong ethical culture across the organization

Having a clear code of ethics that has been communicated effectively to all employees as well as implementing regular training in ethics and the organizational code of conduct.



Establishing Audit Committees and Boards with oversight roles within public sector organizations (starting with SOEs)

Responsible to oversee management's identification of fraud risks and implementation of anti-fraud measures, as well as supervising the work of the internal audit function.



Setting the tone from the top

Demonstrating ethical behavior, taking enforcement action against fraud perpetrators, and empowering and motivating staff to act and do the right thing.



Implementing a robust anti-fraud environment

Performing periodical fraud risk assessments that evaluate the exposure to various types of fraud; developing a fraud risk plan, procedures, and guidelines; as well as maintaining a strong internal control environment within the organization. Obtaining assurance that the risk of fraud is being effectively incorporated within the internal audit risk assessment is another well recognized anti-fraud deterrence measure.



Implementing annual ethical compliance declarations from employees, suppliers, and other stakeholders

These could prompt individuals to report any issues and improve their awareness of anti-fraud policies and procedures. Conflict of interest statements can also be implemented to ensure that full disclosure of circumstances has been made.



Focus on fraud during ongoing reviews

Addressing fraud risk in the audit universe and plan as a core element of the annual risk assessment process. Performing internal audits that include in their scope a focus on fraud risk during every audit, applying appropriate professional skepticism in the exercise of professional judgment during internal audit reviews, and assessing the adequacy of the organization's fraud risk management process.



Fraud Management: Good Practices (2/2)



Establish and keep updated the internal audit fraud risk policy

The policy states clearly the responsibilities for addressing fraud risk and should include supporting investigations, with internal audit involvement, into any irregular or suspicious activity involving employees, senior officials/management, and other parties that have a relationship with the organization.



Implementing organization wide fraud-awareness activities

All staff should receive fraud awareness training to gain an understanding of the nature, factors that lead to, and characteristics of frauds.



Investing appropriately in resources and capacity of internal audit departments

Including adequate resourcing, with sufficient staff to respond effectively to fraud risks, enabling access to appropriate technology and data analytics tools that can significantly aid their investigations, as well investing in skills and competencies of internal audit staff.



Establishing appropriate channels for reporting fraud

Introducing hotlines and whistleblowing mechanisms, appointing irregularity officers as contact points for communicating and reporting frauds, conducting employee surveys, establishing policies for anonymity and confidentiality, as well as anti-retaliation policies, etc.



Emphasis on fraud-specific training

Staff who manage payments, procurement, and contracting processes should receive specific fraud training to enhance their skills in fraud.



Implementing procedures for responding and investigating fraud

Cooperating with financial inspection and other respective bodies, and ensuring that fraud is investigated by government staff have the adequate skills and competences in areas of investigative interviewing and evidence handling skills.





Group Exercise: Fraud Risk Assessment



Approach & Format

- » Each table is one group;
- » Participants should refer to the handout – Group exercise: Fraud Risk Assessment
- » Each group should use the Risk Assessment Framework (Part A) to complete a set of scenarios (Part B) relating to different fraud risk areas and related controls and document their work in the Fraud Risk Assessment Template (Part C).
- » Participants work in their table groups (for up to 45 minutes), followed by a presentation of the results of their work (5 minutes presentation time per each table group).



Fraud Risk Areas

- » Table 1: Payments, Disbursements and Cash;
- » Table 2: Asset Management;
- » Table 3: Procurement and Contracting;
- » Table 4: Human Resources;
- » Table 5: Information Technology