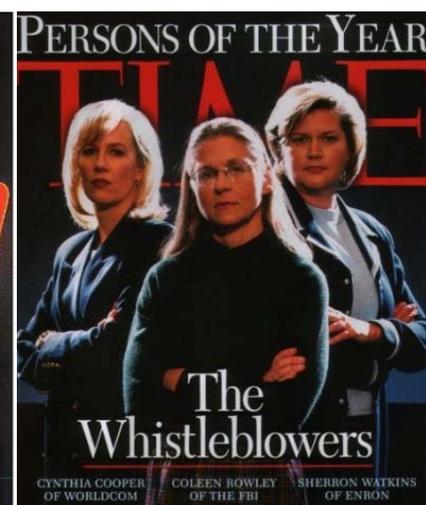
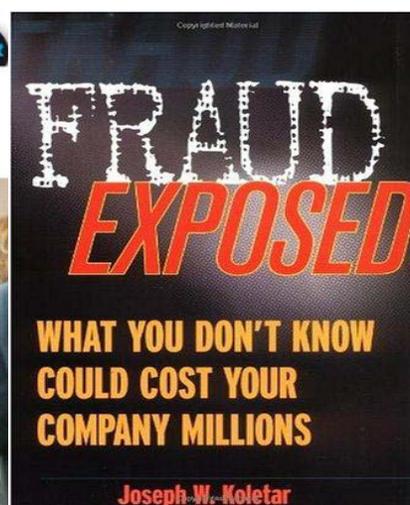
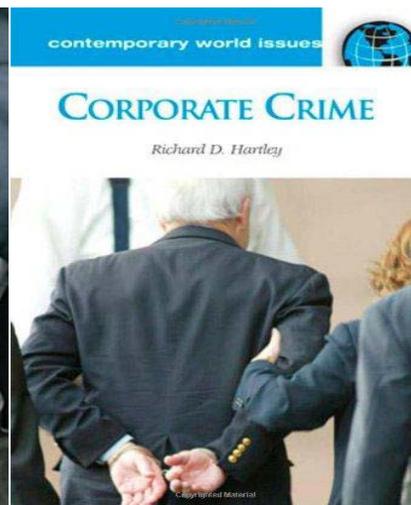
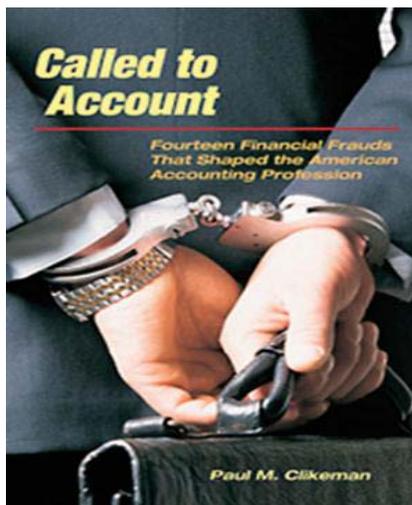


UNDERSTAND RISK AND YOU WILL UNDERSTAND FRAUD



What will we achieve:

The rising importance of fraud risk assessment and the need for aligning business focus on the right set of business risks

Understand Risk and see the effects on your Audit Impact to the Organization

How auditors can become a trusted advisor on Fraud deterrence to top management?

Cooking the Books



- FBI agents arrested the former Collin Street Bakery accountant accused of embezzling more than \$16 million from the renowned fruitcake maker.
- An assistant discovered a company check made out to an unfamiliar bank. **This piqued her interest & she kept investigating**, eventually finding that hundreds of thousands of dollars were being diverted to pay for an extravagant lifestyle

What is it With Bakeries?

- Bakery associate is charged with three other men in a suspected real estate fraud scheme
- Court documents say the bakery associate, falsified deeds to make it look like they owned five properties in Emeryville and Oakland, and then sold them over the Internet.

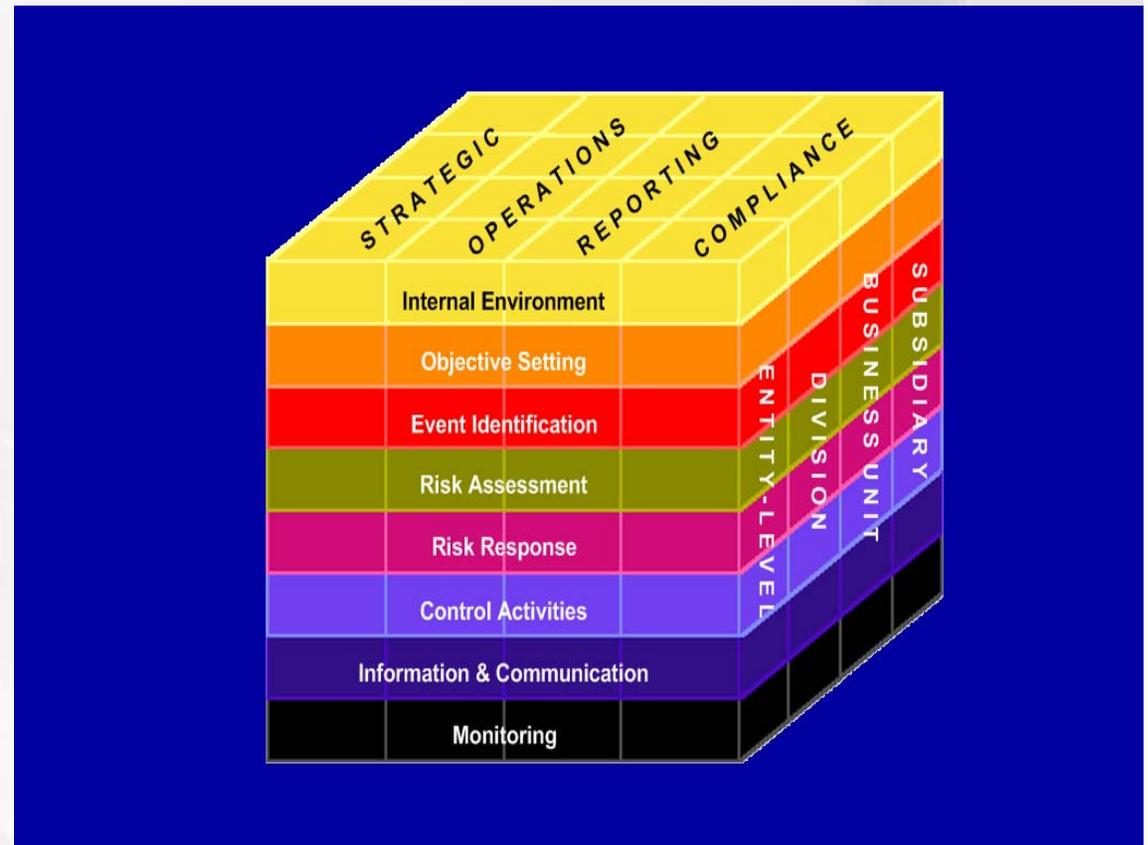


Bakeries whipped by wedding cake scams

- Local bakeries are being targeted by a foreign crook placing orders for fancy wedding cakes. The scammer uses a stolen credit card to pay for the cakes then instructs the businesses to wire money to a company that will pick up and delivery the cake. But the story is just frosting designed to hide an ugly truth – there's no shipping company; just a con artist waiting to pick up the money from Western Union or Moneygram.
- A [Portland bakery](#) spent 60 hours making a \$2,000 cake for 300. The cake spoiled after nobody came to pick it up.



COSO & ERM



What We Are Up Against

- 47% of CFO's say they could justify unethical behavior to help their organization survive the economic downturn
- Nearly half of those survey stated they would be willing to cut ethical corners to meet performance targets, particularly in the last 4 years
- 40% surveys stated that their companies do business in countries in which bribery and fraud occur frequently

Remember:

Fraud is Perpetrated for Two Reasons

- **Profit or Performance**

Criminals Too Have to adjust to New Regulations

- Banks have to develop a card that customers can use easily, yet are difficult for perpetrators to commit fraud with.

Unethical behavior still tolerated

Companies must be prepared for the challenges posed by greater regulatory scrutiny. A large proportion remains tolerant of unethical conduct across all levels of organizations

Almost 1 in 5 company employees, regardless of grade, consider it acceptable to pay bribes to win or retain business.

This is not new. Companies are not making progress in strengthening their ethical culture.

Tone At the Top

- Check Tone in the Middle
- Employees follow their Manager's Lead
- Make Ethics a Priority in all Areas
- Embed it in Your Audits
- Management frequently do not do the right thing when they have a personal stake in the issue

“Have to understand Risk”

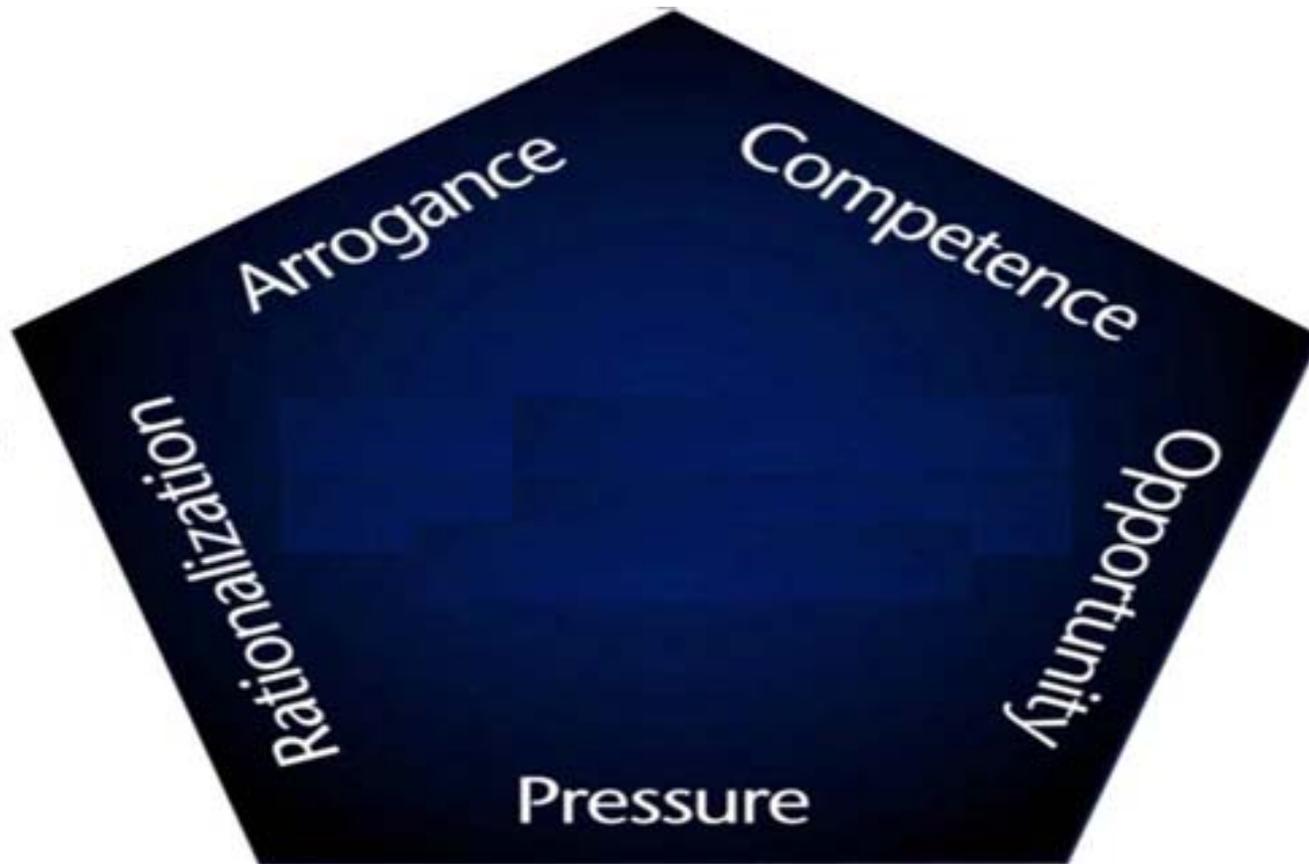
- Failure of “risk management” is a legacy of the current global economic crisis
- Boards didn’t exercise appropriate oversight
- Management took extraordinary risks for short term results
- Regulatory and legislative initiatives mandate greater risk management oversight by Boards
- **“Not the Auditor’s Job to Detect Fraud”** The **reality is:** Internal audit is a natural resource for Fraud Risk Assessment

How much has 70 years of legislation impacted fraud?

—“Greed is smarter and faster than regulation.”

- The Board is generally surprised
- The Audit Committee is shocked
- Yet People know about the fraud

Expand the Fraud Triangle

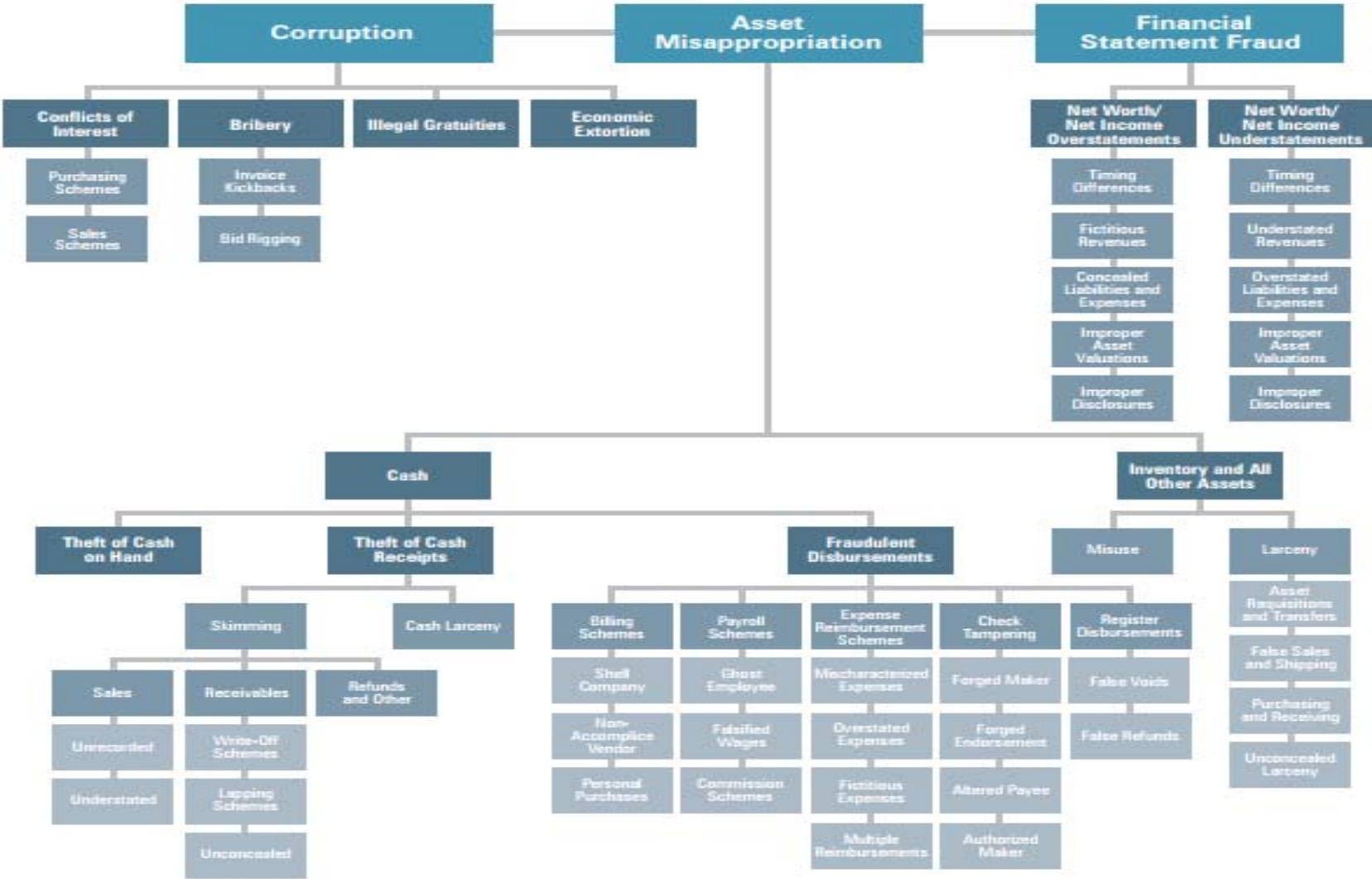


Top 10 Business Risks in 2016

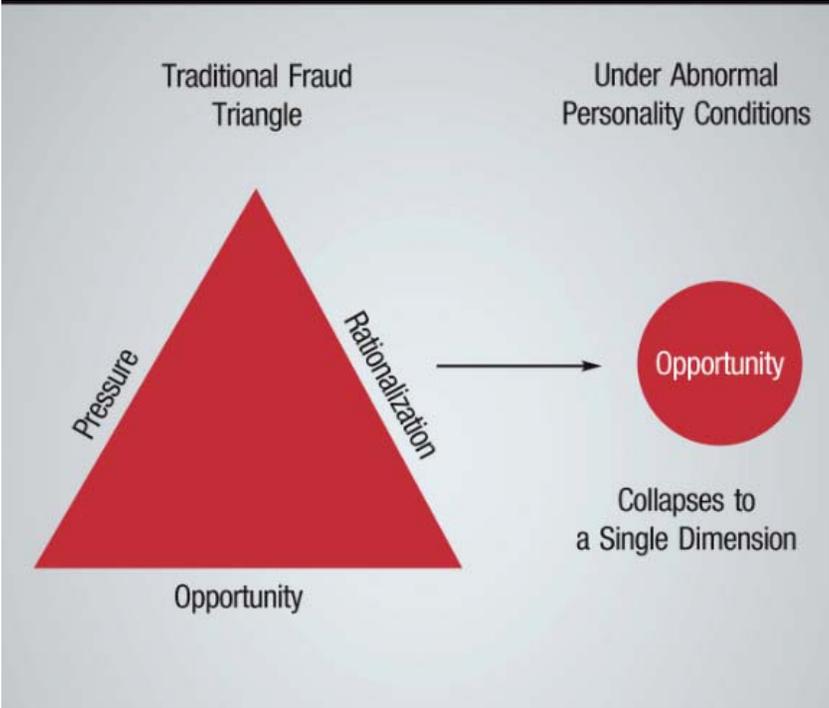
			2015 Rank	Trend
1	Business interruption (incl. supply chain disruption)	38%	7 (46%)	-
2	Market developments (volatility, intensified competition, market stagnation)	34%	NEW	▲
3	Cyber incidents (cyber crime, data breaches, IT failures)	28%	5 (17%)	▲
4	Natural catastrophes (storm, flood, earthquake)	24%	2 (30%)	▼
5	Changes in legislation and regulation (economic sanctions, protectionism)	24%	4 (18%)	▼
6	Macroeconomic developments (austerity programs, commodity price increase, inflation/deflation)	22%	NEW	▲
7	Loss of reputation or brand value	18%	6 (16%)	▼
8	Fire, explosion	16%	3 (27%)	▼
9	Political risks (war, terrorism, upheaval)	11%	9 (11%)	-
10	Theft, fraud, corruption	11%	10 (9%)	-

Source: Allianz Risk
Barometer

Fraud Tree



The Collapse of the Fraud Triangle



Dark Triad Personality

Narcissistic (Megalomania)	Machiavellian Personality	Psychopathic Personality
Grandiosity	Manipulation and exploitation of others	Enduring antisocial behavior
Pride	Cynical disregard for morality	Impulsivity
Egotism	Focus of self interest and deception	Selfishness
Lack of Empathy for Others	Temperamentally predisposed to be calculating ,conniving and deceptive using other people stones to reach their goals	Callousness
Preoccupied with Personal Adequacy ,Power, Prestige and Vanity and mentally unable to see the destructive damage they cause to themselves and others	Tactics include charm, friendliness, self-disclosure, guilt and pressure. Although they prefer to use subtle tactics when possible to mask their true intentions and provide plausible deniability, they have been known to use pressure and threats when necessary	Exhibit glibness or superficial charm, a grandiose sense of self-worth ,a heightened for stimulation and a low threshold for boredom pathological inclination for lying, a shallowness of emotional response, a lack of empathy a patristic lifestyle, a failure to accept responsibility for their actions.
Enron	Apple	Health South
CFO Andrew Fastow	Steve Jobs	CEO Richard Scrushy

Fraud Risk Assessment Framework- Example Revenue Recognition

Identified Fraud Risks and Schemes (1)	Likelihood (2)	Significance (3)	People and/or Department (4)	Existing Anti-fraud Controls (5)	Controls Effectiveness Assessment (6)	Residual Risks (7)	Fraud Risk Response (8)
<i>Financial Reporting</i> Revenue recognition • Backdating agreements	Reasonably possible	Material	Sales personnel	Controlled contract administration system	Tested by IA	N/A	Periodic testing by IA
• Channel stuffing	Remote	Insignificant	N/A	N/A	N/A	N/A	N/A
• Holding books open	Reasonably possible	Material	Accounting	Standard monthly close process Reconciliation of invoice register to general ledger Established procedures for shipping, invoicing, and revenue recognition Established process for consolidation	Tested by IA Tested by management Tested by IA Tested by IA	Risk of management override	Testing of late journal entries Cut off testing by IA
• Late shipments	Reasonably possible	Significant	Shipping dept.	Integrated shipping system, linked to invoicing and sales register Daily reconciliation of shipping log to invoice register Required management approval of manual invoices	Tested by IA Tested by management Tested by IA	Risk of management override	Cut off testing by IA

- Consider Risk...
 - Be realistic
 - Dialogue with management
 - Emphasize in department