

Internal Audit
Presentation



Fraud Prevention &
Awareness for Management





Topics Covered

1. Fraud Overview & Types of Fraud
2. Fraud Triangle – Opportunity, Pressure, Rationalization
3. Management’s Role in Audit Prevention & Detection
4. Behavioral Red Flags
5. Support - Internal Audit, Controller’s Fraud, Waste & Abuse Unit, Human Resources, Law Enforcement



Fraud Overview

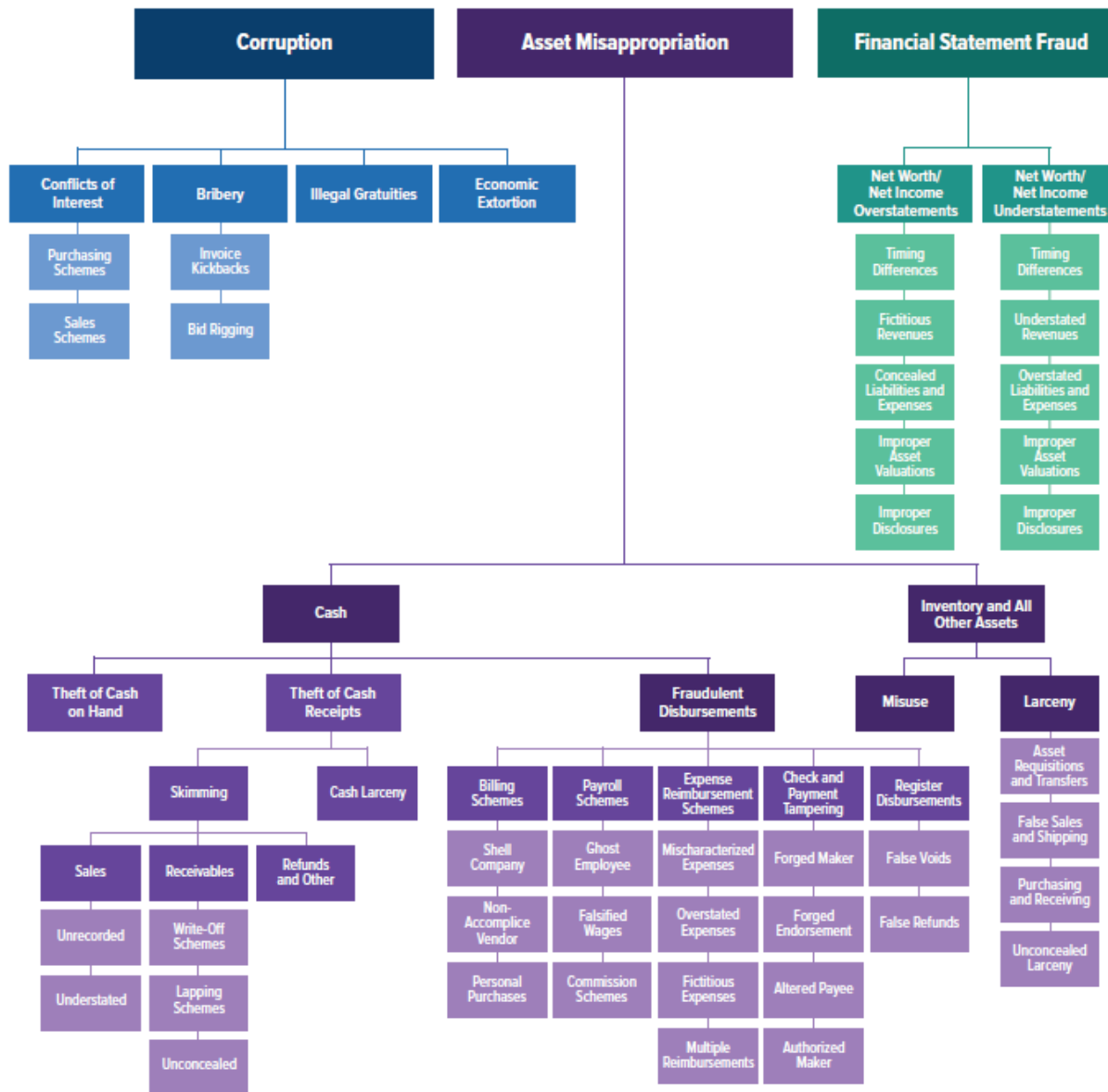
- Fraud awareness – management missed fraud schemes because they trusted employees & disregarded internal controls.

Statistics based on the report*

- Fraud cost organizations 5% of revenues annually.
- 51% of frauds were done by a collusion of two or more fraudsters.
- Indicators (red flags) exist in 85% of the fraud cases.
- Fraud detection - #1 is tips, #2 is internal audit, #3 is management review.

* Source: 2020 Report to Nations by the Association of Certified Fraud Examiners

Fraud Tree* – Multiple Fraud Schemes



* Source: 2020 Report to Nations by the Association of Certified Fraud Examiners



Fraud Triangle

Why do people commit fraud?

It takes

Motivation/Pressure, **Opportunity** & **Rationalization**

*Sudden changes in circumstances
Feeling wronged
Survival
Status pressure*



*Oversight is:
Absent
Unenforced
Ineffective
Unmonitored*

“I should have been promoted, I deserve it.”

“Everyone takes something.”

“The Port is so big, it won’t matter anyway.”



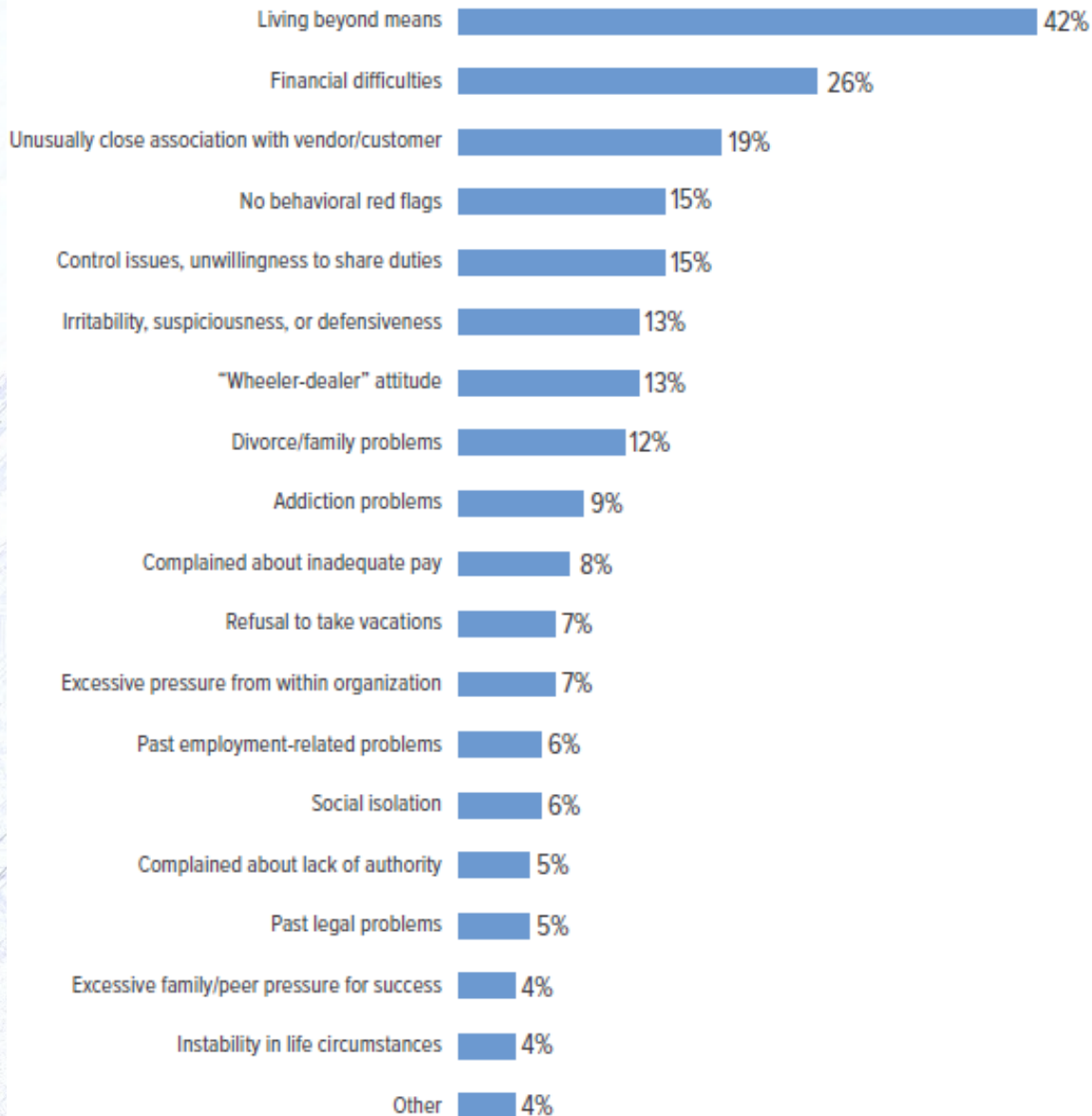
Management's Active Role

1. Strong hiring policies that include screenings
 - Past employment verifications
 - Background checks
 - Reference checks

2. Management needs to know their employees and can help them by
 - Having an open door policy that allows employees to speak freely about pressures
 - Making employee support programs known to employees

3. Exercise strong anti-fraud controls, such as
 - Proper separation of duties
 - Use of authorizations
 - Physical safeguards
 - Job rotations
 - Mandatory vacations

How often do perpetrators exhibit behavioral red flags?*



* Source: 2020 Report to Nations by the Association of Certified Fraud Examiners





Thank you!

Fraud Prevention starts with you!

The 2020 Report to Nations by the Association of Certified Fraud Examiners can be found at:

<https://legacy.acfe.com/report-to-the-nations/2020/>

Thank you for your time and attention

Barbara J. Steelman, CIA, CMA
Director of Internal Audit
310.732.3647