



Fraud and Internal Audit Survey



AuditNet Survey Fraud Hot Spots 2010: What's On Your Radar?

[Click here for the Summary and Detailed Survey Responses](#)

Recent changes in the Institute of Internal Auditors (IIA) Standards—contained in the Institute's International Professional Practices Framework (IPPF) — state that internal auditors must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk. In light of this newly heightened emphasis on the anti-fraud role of internal auditors, we conducted a survey to determine what fraud risks internal auditors are concerned with and how they are addressing these risks in their audit plans.

Of the more than 100 auditors who responded, over two thirds were from audit departments with fewer than 10 auditors. Almost half (48.5%) of the respondents indicated that they felt that internal fraud (by employees) against corporations is getting worse.

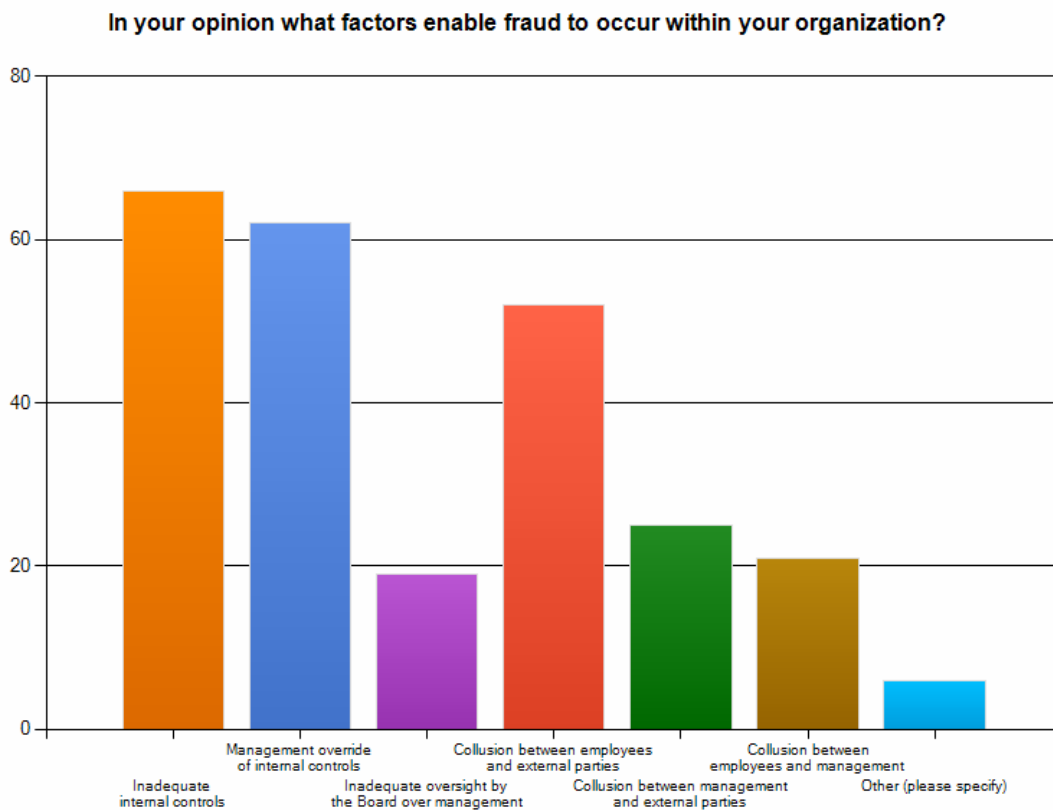
Similarly, nearly two thirds of respondents felt that external fraud (by dishonest vendors, computer attack, customers) is getting worse. This implies that, while statistics show most fraud against organizations is perpetrated by insiders, external fraud may be narrowing the margin. If true, this would not be surprising, given the dramatic advances in technology—both on and off the Internet—that make it increasingly easy for unscrupulous outsiders to perpetrate such increasingly costly crimes as digital account hijacking, healthcare insurance fraud, theft of confidential data, to name just a few.

In the area of fraud prevention, well over half (57%) of respondents felt that Boards of Director were somewhat effective in terms of communicating the message of "zero tolerance" toward fraud. This is a positive as it validates the ubiquitous credo of anti-fraud experts that "Tone at the Top" does work in convincing employees and auditors that fraud will not be tolerated.

Curiously, however, over 65% of survey respondents felt that senior management is aware of some frauds but not as many as they should be.

So the key question remains: If Boards are effectively communicating the message but management is not aware or familiar with the fraud threats, what is the problem? Perhaps the answer lies in the type of training that management is receiving (or not receiving) regarding detecting and preventing fraud in their organizations.

A further question asked respondents to identify the factors that enable fraud to occur within their organizations. Following is a chart showing the breakdown of responses.

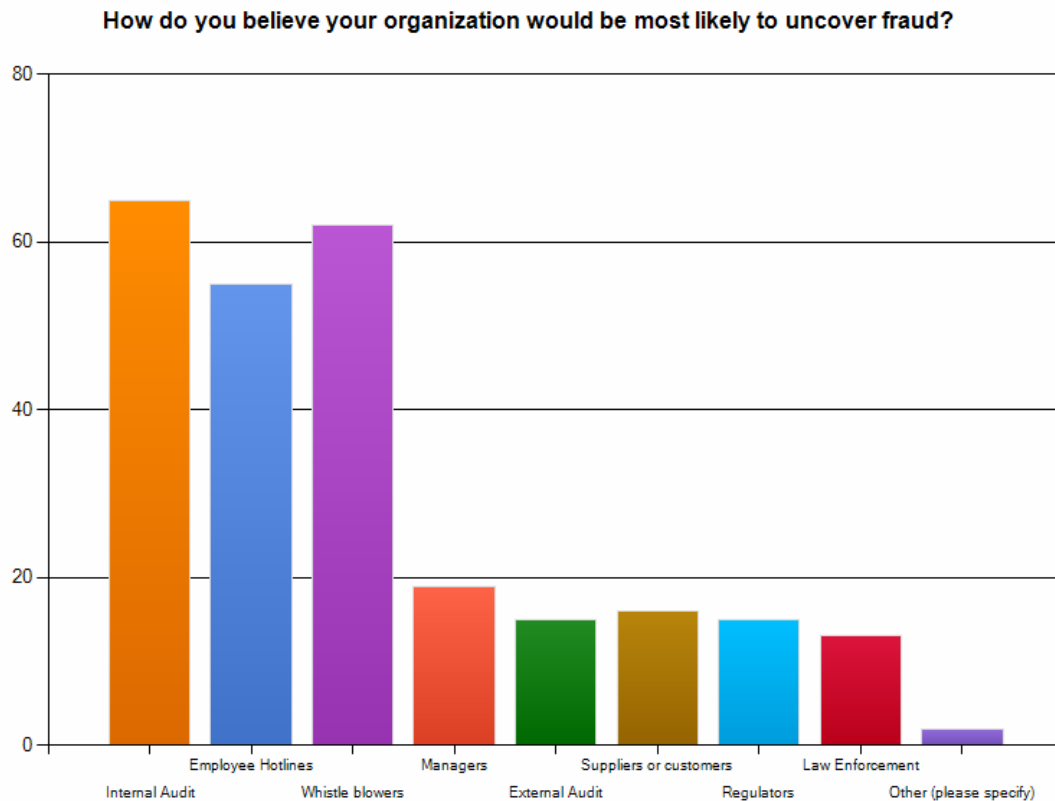


The next question asked auditors to share their opinion as to how their organization would most likely uncover fraud. Internal auditors felt that they were the group most likely to discover fraud followed by whistle blowers and employee hotlines. This conflicts with a finding from the Association of Certified Fraud Examiners (ACFE) 2010 Report to the Nations on Occupational Fraud and Abuse which stated:

Tips are key in detecting fraud. Occupational frauds are much more likely to be detected by tip than by any other means. This finding has been consistent since 2002, when the ACFE began tracking data on fraud detection methods.

If we combine employee hotlines and whistle blowers which represent tips then our survey is consistent with the ACFE 2010 Report.

Following is a chart of the responses from the AuditNet® survey:



The next question required auditors to rank the types of fraud that their organization would be most at risk for in 2010. The following represents the prioritization based on the responses received combining the risk rankings and calculating an overall average for each type. Procurement fraud, computer fraud, contract fraud and theft and embezzlement top the list for internal auditors.

Type of Fraud	Values
Procurement	2.14
Computer fraud and Information Security (Intellectual Property Protection/internal computer crime/corporate ID theft, etc)	2.10
Contract Fraud	2.05
Theft/Embezzlement	2.02
Vendor fraud	1.98
Payments Fraud (Check/ACH/Wire)	1.97
Inventory	1.93
Bribery/Corruption/Bid-Rigging/FCPA/Collusion/Kickbacks	1.91
Fraudulent Disbursements	1.90
T&E Fraud	1.84
Expense Reimbursement Schemes	1.84
Payroll Schemes	1.76
Accounts Receivable Fraud	1.74
Billing Schemes	1.74
Payroll	1.73
Financial Statement Fraud management manipulation	1.70
Beneficiary fraud	1.62
Government/Not-for-profit fraud	1.59
Skimming	1.59
Government False Claims and Statements	1.56
Health Claims	1.56
Cash Larceny	1.56
Check Tampering	1.43
Register Disbursement Schemes	1.35

When asked to rate fraud topics in terms of how beneficial detection and prevention training would be for their organization's auditors, accountants and senior financial managers, employee fraud was clearly at the top of the list, followed by computer fraud and fraud awareness training. The following is a ranked listing of all key training areas:

Topics	Rating Average
Employee Fraud	2.63
Computer fraud and Information Security (Intellectual Property Protection/internal computer crime/corporate ID theft, etc)	2.56
Fraud Awareness Training	2.56
Payments Fraud (Check/ACH/Wire)	2.50
Hotlines	2.50
Operational Anti-Fraud Controls	2.50
Healthcare Fraud	2.40
Fraud-Audit Automation	2.33
Bribery/Corruption/Bid-Rigging/FCPA	2.33
Fraud Risk Assessment	2.27
Inventory Fraud	2.14
Procurement Fraud	2.07
T&E Fraud	2.00
Accts. Receivable Fraud	2.00
Government/Not-for-profit fraud	2.00
Role of the Internal Auditor in Fraud Detection/Prevention	2.00
Payroll Fraud	1.89
Internal Controls over Financial Reporting (ICFR)	1.86
Financial Reporting Fraud – How it works and how to spot it.	1.83

Based on the responses noted above about management's awareness of fraud, it seems most organizations would benefit from general employee fraud awareness training. Perhaps if all employees were aware of the risks and red flags of fraud within their organizations, management would also benefit by implementing controls that would address the identified fraud areas.

Not surprisingly, the vast majority (87%) of those responding indicated that they integrate fraud detection steps in their audit work programs. This is a positive trend as the new IIA guidelines for the internal auditor's responsibilities regarding fraud prevention and detection mandate a proactive approach by internal audit departments.

According to Peter Goldmann MSc, CFE and President and Founder of [White Collar Crime 101](#) and Developer of [FraudAware®](#) anti-fraud training courses; in general, the survey is encouraging in that it indicates a growing awareness of the fraud "problem" among Board members and internal auditors. However, it also points up the chronic challenge of infusing "Tone at the Top" into the general corporate culture. As long as management remains inattentive to the potential for serious fraud-related damage, news organizations will continue to receive a steady diet of financial scandals to report.

Editor's note: AuditNet and FraudAware are offering two series of Webinars

Detecting and Preventing Fraud Using Data Mining Techniques and Detecting and Preventing Fraud in Today's High-Crime Climate

These two new fraud Webinar series will focus on two critical areas: how to optimize your organization's fraud detection and prevention processes and procedures in 12 critical areas and, how to efficiently and inexpensively detect fraud using today's top audit automation tools with 5 focused Webinars. Following are links to the two series with great values and low cost CPE by signing up for either the enterprise or individual licensing packages. There is also the option to pick and choose which areas you and your staff can focus on.

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[Detecting and Preventing Fraud in Today's High-Crime Climate](#) CPE as low as \$22.17/hr

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