Summary

-Introduction to Fraud Examination-

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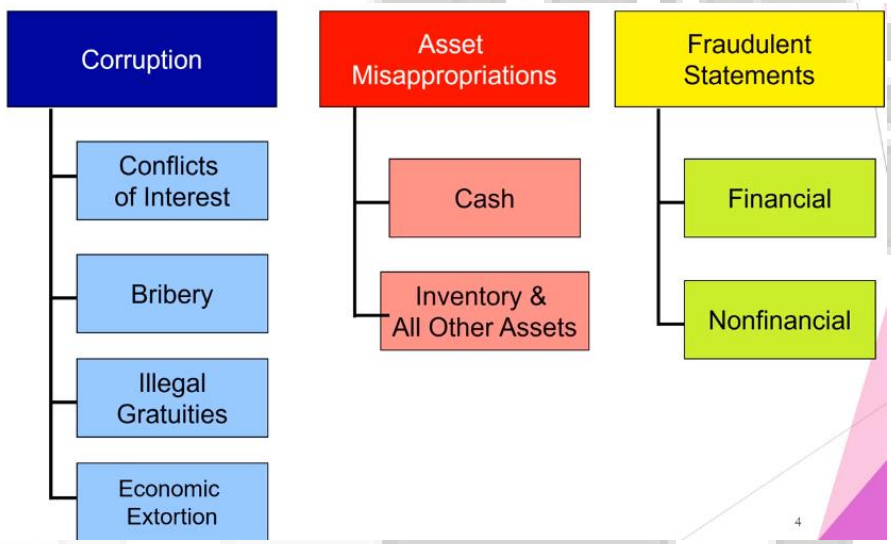
Topic 1 Introduction to Fraud Examination

Focus is on Occupational Fraud ⇒ the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets

Occupational fraud and abuse:



Occupational fraud is more likely to be detected by a tip than by any other method

Elements of fraud:

- a *material* false statement
- *knowledge* that the statement was false when it was uttered
- *reliance* on the false statement by the victim
- *damages* resulting from the victim's reliance on the false statement

Fraud is…:

- intentional
- to trick or deceive someone out of his/her assets
- theft
- a crime

Fraud is not…:

- taken by physical force
- a mistake or error
- victimless
- insignificant because no one is hurt
- acceptable or justifiable

Some related financial crimes:

- Larceny → taking assets without their permission
- Conversion → borrowed it, treated it like it's your own, returning it in a different form without permission
- Embezzlement → theft, somebody with a high level of trust (higher up in the organization)
- Breach of Fiduciary Duty → it does not have to be a theft, you do not have to become better off like the other three options

Auditing vs. Fraud Examination

Auditing vs. Fraud Examination

Issue	Auditing	Fraud Examination
Timing	Recurring	Nonrecurring
Scope	General	Specific
Objective	Opinion	Affix blame
Relationship	Non-adversarial	Adversarial
Methodology	Audit techniques	Fraud examination techniques
Presumption	Professional skepticism	Proof

Fraud Theory Approach:

- analyze available data
- create a hypothesis
- test the hypothesis
- refine and amend the hypothesis

Tools used in fraud examination:

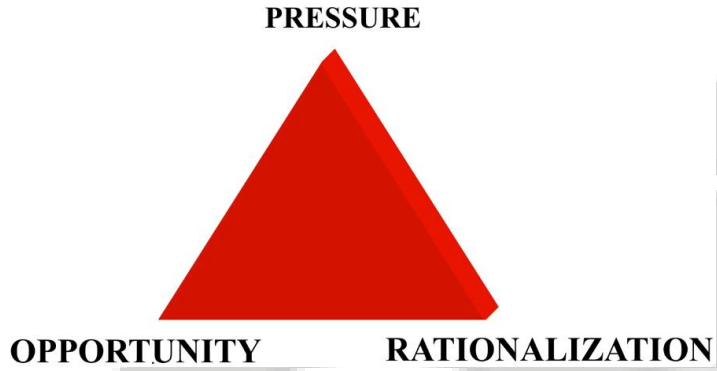
- observation
- predication
    - totality of circumstances that would lead a reasonable, professionally trained, and prudent individual to believe a fraud *has* occurred, *is* occurring, and/or *will* occur
    - fraud examinations must be based on predication

Edwin H. Sutherland

- Defined 'white collar crime'
    - criminal acts of corporations
    - individuals in corporate capacity
    - crime committed by a person of respectability and high social status in the course of their occupation
- Theory of differential association
    - crime is learned
    - not genetic

- through interaction with others, individuals learn the values, attitudes, techniques and motives for criminal behaviour

Donald Cressey: the fraud triangle



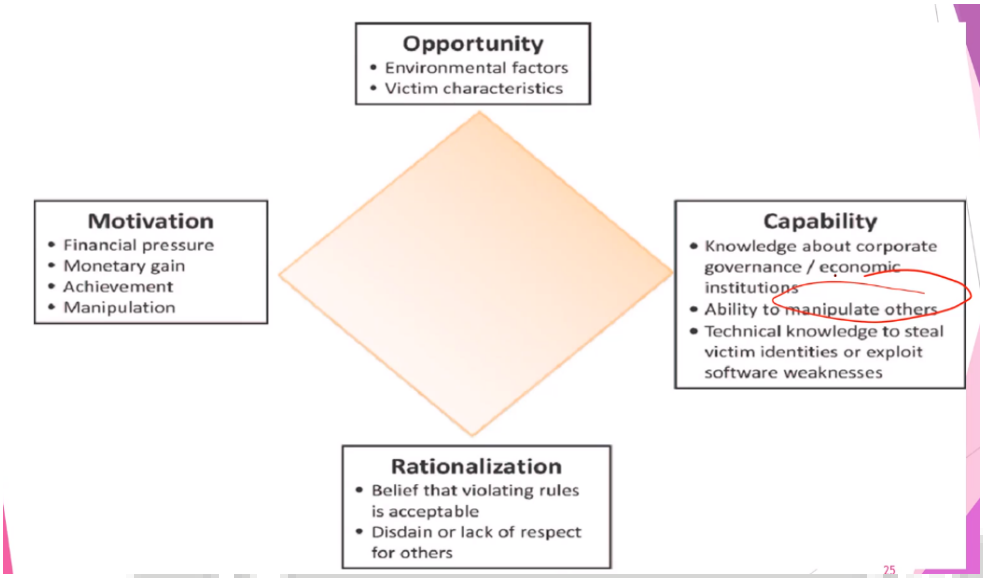
Pressure: Non Shareable problems

- violation of ascribed obligations
- personal failures
- business reversals
- physical isolation
- status gaining
- employer-employee relations

Other motivations: MICE

- M: money
- I: ideology
- C: coercion
- E: ego (entitlement)

The Fraud Diamond: adding the fraudster's capabilities (Wolfe and Hermanson)



- can enhance the Fraud Triangle to improve both fraud prevention and detection by considering a fourth element, capability
- capability is an individual's personal traits and abilities that play a major role in whether fraud may actually occur
- The Fraud Diamond modifies the opportunity side of the Fraud Triangle, because without the capability to exploit control weaknesses for the purpose of committing and concealing the fraud act, no fraud can occur

Dr. Steve Albrecht: developed the 'Fraud Scale' →

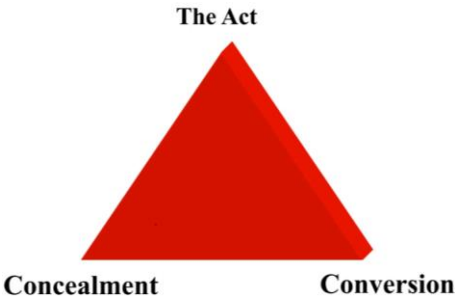
- Situational pressures
  - immediate problems with environment
  - usually debts/losses
- Perceived opportunities
  - poor controls
- Personal integrity
  - individual code of behavior

Hollinger-Clark study (1983) → theft caused by job dissatisfaction & true costs vastly understated

Hollinger's conclusions

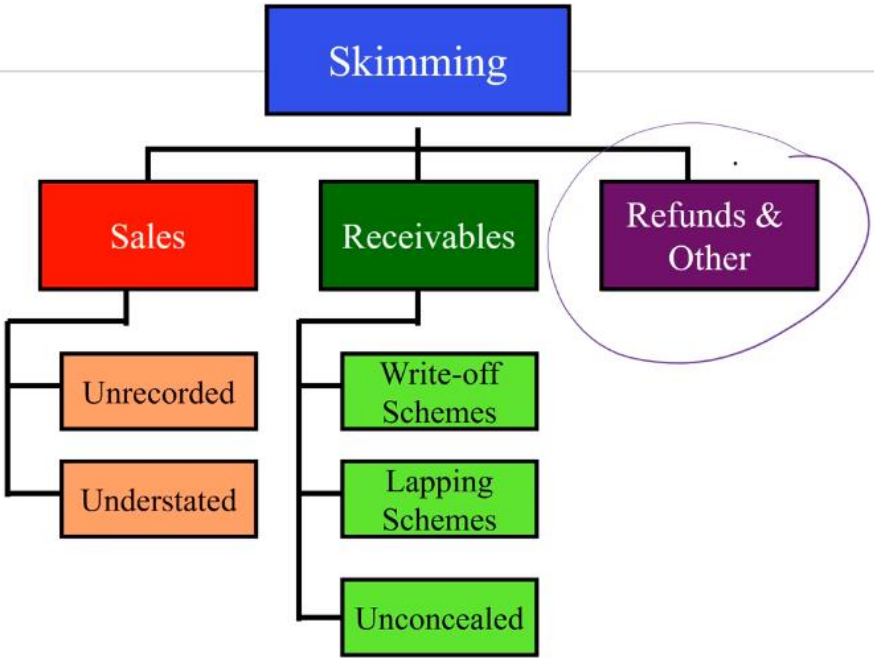
- employee perception of detection is critical
- increased security may hurt, not help
- employee-thieves exhibit other deviance
  - sloppy work, sick leave abuses, etc.
- management should be sensitive to employees
- pay special attention to young employees

The Elements of fraud:



Topic 2 Skimming

Skimming Scheme



Theft of cash from a victim entity prior to its entry in an accounting system → ''Off-book''

No direct audit trail, its principal advantage is its difficulty of detection

Preventing and detecting sales skimming:

- maintain a viable oversight presence at any point
- create a perception of detection
- install video cameras
- utilize customers to detect and prevent fraud
- all cash registers should record the log-in and log-out time of each user
- off-site sales personnel should also be required to maintain activity logs
- eliminate potential hiding places for stolen money
- incoming mail should be opened in a clear, open area free from blind spots and with supervisory presence

Receivables skimming:

- more difficult than skimming sales
- customers are notified when payment is not received and will most likely complain
- lapping
- force balancing
- stolen statements
- fraudulent write-offs or discounts
- debiting the wrong account
- document destruction

Preventing and detecting receivables skimming:

- Receivables skimming schemes are possible when there is a breakdown in internal controls
    - mandate vacations
    - segregation of duties
    - mandate supervisory approval
    - train audit staff
- Proactively search for accounting clues
- Perform trend analysis on aging of customer accounts
- Conduct audit tests

Topic 3 Larceny

Cash Larceny:

- Intentional taking away of an employer's cash without the consent and against the will of the employer
- Fraudulent disbursements
- Cash receipt schemes

Cash larceny schemes:

- Can occur under any circumstance in which an employee has access to cash
    - at the point of sale
    - from incoming receivables
    - from the victim organization's bank deposits

Larceny at the point of sale:

- it's where the money is
- most common point of access to ready cash
- results in an imbalance between the register tape and cash drawer

Larceny schemes:

- theft from other registers
- death by a thousand cuts
- reversing transactions
- alerting cash counts or cash register tapes
- destroying register tapes

Preventing and detecting cash larceny at the point of sale:

- Enforce separation of duties
- independent checks over the receipting and recording of incoming cash
- upon reconciliation of cash and register tape, cash should go directly to the cashier's office
- discrepancies should be checked, especially if a pattern is identified
- periodically run reports showing discounts, returns, adjustments, and write-offs by employee, department, and location to identify unusual patterns

Larceny of receivables:

- theft occurs after the payment has been recorded
- force balancing
- reversing entries
- destruction of records

Cash larceny from the deposit:

- Whoever takes the deposit to the bank has an opportunity to steal a portion of it
- Having controls - such as receipted deposit slip to the originally prepared slip - does not always prevent theft
- Failure to reconcile the slips can foster an environment leading to theft
- Lack of security over the deposit before it goes to the bank can also lead to theft

Preventing and detecting cash larceny from the deposit:

- separation of duties is the most important factor
- all incoming revenues should be delivered to a centralized department
- compare the authenticated deposit slip with the company's copy of the deposit slip, the remittance list, and the general ledger posting of the day's receipts

- two copies of the bank statement should be delivered to different persons in the organization
- require that deposits be made at a night drop at the bank

Topic 4 Billing Schemes

Billing schemes:

- the perpetrator uses false documentation to cause a payment to be issued
- the payment is for a fraudulent purpose
- this payment is issued in same manner as a legitimate disbursement
- Types of schemes:
    1. Shell company schemes
    2. Non-accomplice vendor schemes
    3. Personal purchases schemes

1. Shell company schemes:

- fictitious organizations are created for the sole purpose of committing fraud
- bank account is usually set up in the company's name
- form a shell company
- not difficult to do

How does it work?
→ submitting false invoices
→ self-approval of fraudulent invoices
→ 'rubber stamp' supervisors
→ reliance on false documents
→ collusion
→ purchases of services rather than goods
→ pass-through schemes

Preventing and detecting Shell Company Schemes

- Maintain and regularly update an approved vendor list
- Independently verify all vendors before payment
- Identifying shell company invoices
- Testing for shell company schemes
- Verifying whether a shell company exists
- Identifying the employee behind a shell company

2. Non-accomplice vendors

- Vendor is not a part of the scheme and completely innocent

- Pay-and-return schemes: schemes in which the employee intentionally mishandles payments that are owed to legitimate vendors
- Overbilling with a non-accomplice vendor's invoices

Preventing and detecting Non-accomplice vendor fraud:

- Incoming checks should be photocopied and attached to the remittance advice
- Banks should be instructed not to cash checks payable to an organization
- Spot check past account payable files when a pay-and-return scheme is suspected

3. Personal purchases schemes

→ Employees make personal purchases for themselves, their businesses, their family, or their friends using company funds

- The fraudster is authorizer of invoices
- Falsifying documents such as purchase orders to obtain authorization
- Altering existing purchase orders
- False purchase requisitions

Preventing and detecting personal purchases

- Conduct a thorough review of each credit card or purchasing card statement independent of the signature authority
- Only original support for the reimbursement should be allowed
- Card issuer should send two copies of the statement to two different individuals within the organization
- Card statements should be compared with employee expense vouchers for duplications, and monitored for unexplained increases in purchasing levels

Topic 5 Cheque Tampering

Cheque tampering schemes:

- Perpetrator physically prepares the fraudulent cheque
- This fraud depends on:
    - access to cheque stock
    - access to bank statements
    - access to cash disbursements journal
    - ability to forge signatures or alter other information on the cheque

Forged Maker Schemes:

- an employee misappropriates a cheque and fraudulently affixes the signature of an authorized maker

  Must have:

- access to a blank cheque
- convincing forgery of an authorized signature

- ability to conceal the crime

Obtaining the cheque:

- employees having access to company cheques
    - Accounts Payable clerks, office managers, bookkeepers
- employees lacking access to company cheques
    - cheques poorly guarded
- producing counterfeit cheques

Safeguarding the cheque stock:

- maintained under lock and key
- access limited to those with cheque preparation duties
- boxes of blank cheques should be sealed with security tape
- periodically verify the security of unused cheques
- voided cheque should be promptly destroyed
- cheques should be printed on watermark paper with security threads and distinctly marked paper
- out-of-sequence canceled cheques and duplicate cheque numbers should be investigated
- each day the first cheque of the day should be reconciled to the last cheque written the previous day

Forging the signature:

- Free-hand forgery
- Photocopied forgeries
- automatic cheque-signing mechanisms

Forged maker schemes:

- Concealing the fraud
    - miscode the cheque
- Converting the cheque
    - fake identification may be needed
    - cheques made payable to 'cash' require the endorsement of the person converting the cheque thus leaving a clue as to the identity of the forger

Preventing and detecting forged maker schemes:

- safeguard blank cheque stock
- establish rules for custody of cheques that have been prepared but not signed
- separate duties of cheque preparer and cheque signers
- rotate authorized cheque signers when possible and keep track of authorized signers
- Strictly limit access to signature stamps

Forged Endorsement Schemes:

- employee intercepts a company cheque intended for a third party
- signs the third party's name on the endorsement line of the cheque

Preventing and detecting the theft of outgoing company cheques:

- separate the functions of cutting cheques, cheque signing, and delivery of cheques
- employees should be trained to look for schemes involving cheque theft
- investigate vendor and customer complaints
- accounting system should identify duplicate payments
- authority to make changes to vendor records should be restricted
- periodic report listing all changes to vendor records should be generated to determine if there is an unusual number of changes made
- investigate canceled cheques with dual endorsements and non-payroll cheques signed by an employee
- chart the date of mailing for every outgoing cheque so that if a cheque is stolen, you can determine who worked in the mailroom on the date it was stolen

Altered payee schemes:

- employee intercepts a company cheque intended for a third party
- payee designation is altered so the cheque can be converted
- less chance of discovery unless canceled cheques are reviewed during reconciliation

Concealed cheque schemes:

- employee prepares a fraudulent cheque and summits it along with legitimate cheques
- cheque is payable to the employee, an accomplice, a fictitious person, or a fictitious business
- occurs when cheques are signed without proper review or reviewer is busy
- in many cases, only the signature line is exposed and the payee is concealed

Authorized maker schemes:

- employee with signatory authority writes a fraudulent cheque
- overriding controls through intimidation
    - high-level managers can make employees afraid to question suspicious transactions
    - can happen when ownership is absent or inattentive
- poor controls
    - failure to closely monitor accounts
    - lack of separation of duties

Preventing and detecting cheque tampering by authorized makers:

- difficult to detect because cheque signer is relied on to serve as a control
- separate the duties of the cheque writing function
    - cheque preparer and cheque signer
    - cheque signers should not have access to blank cheques
- require dual signatures for disbursements over a certain amount
- maintain up-to-date vendor lists and confirm all disbursements to the lists, scrutinizing cheques to unknown vendors

Concealing cheque tampering

- Falsifying the disbursements journal
- Reissuing intercepted cheques
- Bogus supporting documents
- Fraudster reconciling the bank statement
- Re-alteration of cheques

Electronic payment tampering
Prevention and detecting:

- Internal controls
  - separation of duties
  - segregating bank accounts
  - daily account monitoring and reconciliation
  - management and protection of user access and account information
- Bank security services
  - restrict banking software access to specific banking activities to enhance separation of duties
  - customize banking software to incorporate dual authorization and daily or individual transaction limits
  - use bank's multi-factor authentication tools

Topic 6 Payroll Schemes

Payroll schemes
= occupational frauds in which a person who works for an organization causes that organization to issue a payment by making a false claim for compensation

- ghost employee schemes
- falsified hours and salary schemes
- commission schemes

Ghost employees = someone on the payroll who does not actually work for the victim company (fictitious person)
Ghost employee schemes:

- Collecting timekeeping information
- Issuing the ghost's paycheck
- Delivery of the paycheck

Preventing and detecting ghost employee schemes:

- separate the hiring function from the payroll function
- personnel records should be independently maintained from payroll and timekeeping functions
- personnel department should verify any changes to payroll
- background and reference checks should be made in advance of hire

- Periodically check the payroll records against personnel records for terminated employees and unauthorized wage or deduction adjustments
- Periodically run computer reports for employees
- Compare payroll expenses to production schedules
- Keep signed checks in a secure location
- Verify proper distribution and require employee identification

Preventing and detecting falsified hours and salary schemes

- preparation, authorization, distribution, and reconciliation should be segregated
- Transfers of funds from general accounts to payroll accounts should be handled independently
- No overtime should be paid unless authorized in advance
- Sick leave and vacation time should not be granted without supervisory review and should be monitored for excessive time taken
- A designated official should verify all wage rate changes
- Timecards should be taken directly to the payroll department after approval
- time cards should be secured and monitored
- run programs to actively seek out fraudulent payroll activity

Commission Schemes:

- Pay is based on an employee's output rather than hours worked or a set salary
- Falsify the amount of sales made
- Fraudulently increase the rate of commission

Detecting commission schemes:

- run periodic reports to show an unusual relationship between sales figures and commission figures
- run report that compare commissions earned among salespersons
- track uncollected sales generated by each salesperson
- conduct random samples of customers to verify that the customer exists

Topic 7 Expense Reimbursement Schemes

Expense Reimbursement Schemes

→

- Employees are reimbursed for expenses paid on behalf of their employer
    - airfare, hotel bills, business meals, mileage, etc.
- business purpose explained and receipts attached per the organization's guidelines

Mischaracterized expense reimbursements:

- purpose of reimbursement request is misstated
- fraudster seeks reimbursement for personal expenses
    - personal trips listed as a business trip

    - non-allowable meals with friends and family
- perpetrators are usually high-level employees, owners, or officers
- common element - lack of detailed expense reports

Preventing and detecting mischaracterized expenses:

- establish and adhere to a system of controls
- require detailed expense reports with original support documentation
- require direct supervisory review of all travel and entertainment expenses
- establish a policy that clearly states what will and will not be reimbursed
- scrutinize any expense report that is approved outside the requestor's department
- compare dates of claimed expenses to work schedules
- compare prior year expenses to current year expenses and to budgeted expenses

Overstated expense reimbursements:

- altered receipts
- over-purchasing
- overstating another employee's expenses
- orders to overstate expenses

Preventing and detecting:

- require *original* receipts for all expense reimbursements
- if photocopied receipts are submitted, independently verify the expense
- book travel through company travel agents using designated company credit card
- compare employee's expense reports with co-workers to identify inconsistencies
- spot check expense reports with customers

Fictitious expenses:

- Producing fictitious receipts
    - personal computers
    - calculators
    - cut and paste
- Obtaining blank receipts from vendors
- Claiming the expenses of others

Preventing and detecting:

- Look for:
    - high dollar items that were paid in cash
    - expenses that are consistently rounded off, ending with '0' or '5'
    - expenses that are consistently for the same amount
    - reimbursement requests that consistently fall at or just below the reimbursement limit
    - receipts that are submitted over an extended times that are consecutively numbered
    - receipts that do not look professional or that lack information about the vendor

Multiple reimbursement schemes:

- a single expense item is submitted several times to receive multiple reimbursements
    - Example: airline ticket receipt and travel agency invoice
- submit the credit card receipt for items charged to the company's credit card account
- submitting the same expenses to different budgets

Preventing and Detecting:

- enforce a policy against accepting photocopies
- establish clearly what types of support documentation are acceptable
- scrutinize expense reports that are approved by supervisors outside the requestor's department
- require that expense reimbursements be approved by the employee's direct supervisor
- establish a policy that expenses must be submitted within a certain time limit

Topic 8 Register Disbursement Fraud

Register disbursements:

- False voids
- False refunds

False refunds:

- a refund is processed when a customer returns an item of merchandise purchases from the store
- merchandise is placed back into inventory
- purchase price is returned to the customer
- fictitious refunds
    - fraudster takes cash from the register in the amount of the false return
    - debit is made to the inventory system showing that the merchandise has been returned to the inventory
- Credit card refunds

False voids:

- also generate a disbursement from the register
- copy of customer's receipt is attached to the void slip
- managers must generally approve voided sales
- rubber stamp approvals allow the fraud to succeed
- management and the employee may conspire

Preventing and detecting register disbursement schemes:

- maintain appropriate separation of duties
- management approval should be required for all refunds and voided sales

- closely guard access to the control key or management code
- prohibit cashiers from reversing their own sales
- require proper documentation for voided transactions such as the original receipt
- require cashiers to maintain a distinct login code
- periodically generate reports of all reversing transactions
- look for large numbers of transactions just below the approval amount
- institute store policies encouraging customers to ask for and examine their receipts
- randomly call customers who have returned merchandise or voided sales

Topic 9 Non-cash assets

Misuse of non-cash tangible assets:
Typical misuse:

- company vehicles
- company supplies
- computers
- other office equipment

Doing personal work on company time
Running side businesses

The costs of inventory misuse:

- Loss of productivity
- Need to hire additional employees to compensate
- Lost business if employee's business competes
- Unauthorized use of equipment can mean additional wear and tear sooner or more often

Unconcealed larceny schemes:

- greater concern than misuse of assets
- most schemes are not complex
- some employees know their co-workers are stealing but refrain from reporting it
- many of the employees who steal company property are highly trusted
- assets misappropriated after-hours or mailed to perpetrator

The fake sale:

- Needs an accomplice
- sale is not rung up but the accomplice takes the merchandise
- accomplice may return merchandise for cash

Preventing and detecting unconcealed larceny of non-cash tangible assets:

- segregate the duties of requisitioning, purchasing, and receiving
- segregate the duties of payables, purchasing, and receiving

- maintain physical security of merchandise
- track those who enter secure areas through access logs
- install security cameras and let their presence be known
- conduct inventory counts on a periodic basis by someone independent of the purchasing and warehousing functions
- suspend shipping and receiving activities during physical counts
- investigate significant discrepancies
- independently follow-up on customer complaints (short shipments)

Asset requisitions and transfers:

- Documentation enables non-cash assets to be moved from one location to another
- Internal documents can be used to fraudulently gain access to merchandise
- Basic scheme is to requisition materials to complete a work-related project, then steal the materials
- Inventory stored in multiple locations creates opportunities

Purchasing and receiving schemes:

- Assets were intentionally purchased by the company but misappropriated

Falsifying incoming shipments

- may also reject portion of the shipment as being substandard
- perpetrator keeps the 'substandard' merchandise

False shipments of inventory and other assets:

- false shipping and sales documents are created to make it appear that the inventory was sold
- false packing slips can allow the inventory to be delivered to fraudster or accomplice
- to hide the theft a false sale is created
- receivable is aged and written off
- legitimate sale is underrated

Other schemes:

- assets are written off in order to make them available for theft
- assets are declared as 'scrap' and given to the employee
- new equipment is ordered for the company to replace old- new equipment is sent to employee's home leaving old equipment in place

Concealing inventory theft:

- key concealment issue is shrinkage
- inventory shrinkage is the unaccounted-for reduction in the company's inventory due to theft
- since shrinkage signals fraud, the fraudster must prevent anyone from looking for the missing assets
- physical count of inventory detects shrinkage
- alter inventory records

    - forced reconciliation
    - deleting or covering up the correct totals and entering new totals
- fictitious sales and accounts receivable
    - charge sale to existing account
    - write-off to discounts and allowances or bad debt expense
- write off inventory and other assets
    - eliminates the problem of shrinkage
- physical padding
- make it appear that there are more assets present than that there actually are

Preventing and detecting thefts of non-cash tangible assets:

- Separate the duties of:
    - ordering goods
    - receiving goods
    - maintaining perpetual inventory records
    - issuing payments
- Match the invoices to receiving reports before payments are issued
- Match the packing slip to an approved purchase order
- Match outgoing shipments to sales orders before merchandise goes out
- Periodically match inventory shipments to sales records
- Investigate shipments that cannot be traced to a sale
- Check out unexplained increases in bad debt expense
- Compare shipping addresses to employee addresses
- Review unexplained entries in perpetual inventory records
- Reconcile materials ordered for specific projects with actual work done
- Perform trend analysis on scrap inventory
- Check to make sure that inventory removed from inventory is properly approved

Misappropriation of intangible assets:

- misappropriation of information
    - includes theft of competitively sensitive information (e.g., trade secrets, customer lists, marketing strategies)
    - can undermine value, reputation, and competitive advantage
    - can result in legal abilities
    - identify most valuable information and take steps to protect it
- misappropriation of securities
    - proper internal controls over investment portfolio

Topic 9 Corruption

Bribery:

- Offering, giving, receiving, or soliciting anything of value to influence an official act
- Buys influence of the recipient

- Commercial bribery → bribe in the corporate world, no government involved
- Kickbacks
- Bid-rigging schemes

Kickback schemes:

- involve submission of invoices for goods and services that are either overpriced or completely fictitious
- involve collusion between employees and vendors
- almost always attack the purchasing function of the victim company
- Diverting business to vendors
    - vendor pays the kickbacks to ensure a steady stream of business from the purchasing company
    - no incentive to provide quality merchandise or low price
    - almost always leads to overpaying for goods and services

Overbilling schemes:

- Employees with approval authority
    - vendor submits inflated invoices to the victim company
    - overstates the cost of actual goods or services or reflects fictitious sales
    - ability to authorize purchases is key to the scheme
- Employees lacking approval authority
    - circumvent purchasing controls
    - may prepare false vouchers to make it appear that the invoice is legitimate
    - may forge an approval signature or have access to a restricted password in a computerized system
    - difficult to detect since the victim company is being attacked from two directions

Other kickback schemes

- to accept substandard merchandise
- to receive a discount or lower price from the victim company

Slush funds:

- other side of the transaction
- funds can be paid from other accounts or paid as 'consulting fees'

Detecting kickbacks:

- Normal controls may not detect kickback schemes
- look for price inflation
- monitor trends in cost of goods sold and services purchased
    - often start small but increase over time
- Look for excessive quantities purchased
- investigate inventory shortages
- look for inferior good purchased
- compare actual amounts to budgeted accounts

Preventing kickbacks:

- assign an employee independent of the purchasing department to routinely review buying patterns
- make sure that all contracts have a 'right to audit' clause → right to see in documentation where the product is bought from etc.
- establish written policies prohibiting employees from soliciting or accepting any gift or favor from a customer or supplier
- expressly forbid any employee from engaging in any transaction, on behalf of the company, in which he or she has an undisclosed personal interest
- implement an ethics policy that clearly explains what improper behavior is and provides grounds for termination of an employee accepts a bribe or kickback

Bid-rigging schemes:

- all bidders are expected to be on an even playing field - bidding on the same specifications
- the more power a person has over the bidding process, the more influence he or she can exert over the selection of the winning bid
- potential targets include:
    - buyers
    - contracting officials
    - engineers and technical representatives
    - quality or produce assurance representatives
    - subcontractor liaison employees

Phases these bids go through:

- Pre-Solicitation Phase
    - Need recognition schemes
        - employee of the purchasing company convinces the company that a particular project is necessary
        - has the specifications tailored to the strengths of a particular supplier
    - Trends indicating a need recognition scheme is occurring
        - higher requirements for stock and inventory levels
        - writing off large numbers of surplus items to scrap
        - defining a need that can only be met by a certain supplier
        - failure to develop a satisfactory list of backup suppliers

Specification schemes:

- specifications include a list of the elements, materials, dimensions, and other relevant requirements
- set the specifications to a particular vendor's capabilities
- Use 'prequalification' procedures to eliminate certain vendors
- sole-source or noncompetitive procurement justifications
- deliberately writes vague specifications requiring amendments at a later date
- bid splitting

- gives a vendor the right to see the specifications before his competitors get the specs

The solicitation phase:

- restricting the pool of vendors from which to choose
- bid pooling
- fictitious suppliers
- restricting the time for submitting bids
- soliciting bids in obscure publications
- publicizing the bid during holiday periods

The submission phase:

- fraud in the sealed bid process
    - last bid submitted is the one that is awarded the contract
    - winning bidder finds out what the other competitors are bidding
    - winning bidder may see the other competitors' bids before submitting his bid
- gets help on preparing the bid

Detecting bid-rigging schemes:

- Look for:
    - unusual bidding patterns
    - low bids followed by change orders
    - a very large unexplained price difference among bidders
    - contractors who bid last and repeatedly receive the contract
    - a predictable rotation of bidders
    - losing bidders who become subcontractors
    - vendors with the same address and phone number
    - fewer bidders than expected for the project
    - projects that have been split into smaller ones

Some examples of value:

- cash
- promises of future employment
- promise of ownership in the supplier's firm
- gifts
    - liquor and meals
    - free travel and accommodations
    - cars and other merchandise
- payment of credit card bills
- loans on very favorable terms
- transfers of property

Other corruption schemes:

- Illegal gratuities
    - given to reward a decision rather than influence it

    - decision made to benefit a person or company but is not influenced by any sort of payment
    - may influence future decisions
- Economic extortion
    - 'Pay up or else'
    - Employee demands payment from a vendor in order to make a decision in the vendor's favor

Conflicts of interest:

- Employee, manager, or executive has an *undisclosed* economic or personal interest in a transaction that adversely affects the company
- victim organization is unaware of the employee's divided loyalties
- distinguished from bribery - in conflicts of interest, the fraudster approves the invoice because of his own hidden interest in the vendor
- Purchasing schemes
- Sales schemes

Purchasing schemes:

- Overbilling schemes
    - bill originates from a real company in which the fraudster has an undisclosed economic or personal interest
    - fraudster uses influence to ensure the victim company does business with this particular vendor
    - does not negotiate in good faith or attempt to get the best price for the employer
- Turnaround sales
    - the employee knows that the company is seeking to purchase a particular assets and purchases it himself
    - turns around and sells it to the company at an inflated price
- Sales schemes
    - Underbillings
        - goods are sold below fair market value to a customer in which the perpetrator has a hidden interest
    - Writing off sales
        - Purchases are made from the victim company and credit memos are later issued

Other Conflict of Interest Schemes:

- Business diversions
    - siphoning off clients of the victim company to the employee's own business
- Resource diversions
    - diverting funds and other resources for the development of the employee's own company
- Financial disclosures
    - inadequate disclosures of related-party transactions to the company

Preventing and detecting conflicts of interest:

- implement, communicate, and enforce an ethics policy that addresses conflicts of interest offenses
- require employees to complete an annual disclosure statement
- establish an anonymous reporting mechanism to receive tips and complaints
- compare vendor address and telephone files to employee address and telephone files for matches

Topic 10 Money Laundering

- Money laundering involves practices that hide the connection between the sources of funds and their ultimate use
- Disguising the source of ill-gotten money and making it appear to have come from legitimate sources
- The laundering process washes dirty money and makes it appear clean

Three phases of money laundering:
- Placement phase
- Layering phase
- Integration phase

Placement methods:
- Smurfing → making lots of little deposits to various banks
- Cash smuggling → take cash across the borders
- Negotiable instruments → buying cashier cheques
- Cash deposits for negotiable goods
- ATM deposits
- Cash value insurance policies

- Corporate bank accounts
- Buy a bank
- Buy a banker

Layering methods:

- Informal value transfer systems
- Tax havens and offshore banks
- Bank secrecy laws
- Offshore trusts → setting up a trust and transfer ownership
- Shell corporations → set up a major corporation and make it look legitimate that you make money that way
- Walking accounts
- Buy a bank
- Financial intermediaries

Integration methods:

- Offshore debit and credit cards
- Offshore consulting and directors fee
- Corporate loans
- Gambling
- Real estate flips
- Legitimate businesses

Topic 11 Accounting Principles and Fraud

Who commits financial statement fraud:

- senior management
- mid- and lower-level employees
- organized criminals

Why?

- to conceal true business performance
- to preserve personal status/control
- to maintain personal income/wealth

Why senior management will overstate business performance:

- To meet or exceed the earnings or revenue growth expectations of stock market analysts
- To comply with loan covenants
- To increase the amount of financing available from asset-based loans
- To meet a lender's criteria for granting/extending loan facilities
- To meet corporate performance criteria set by the parent company
- To meet personal performance criteria

- To trigger performance-related compensation or earn-out payments
- To support the stock price in anticipation of a merger, acquisition, or sale of personal stockholding
- To show a pattern of growth to support a planned securities offering or sale of the business

Why senior management will understate business performance:
- To defer surplus earning to the next accounting period
- To take all possible write-offs in one 'big bath' now so future earnings will be consistently higher
- To reduce expectations now so future growth will be better perceived and rewarded
- To preserve a trend of consistent growth, avoiding volatile results
- To reduce the value of an owner-managed business for purposes of a divorce settlement
- To reduce the value of a corporate unit whose management is planning a buyout

How do people commit financial statement fraud?
- Playing the accounting system
    - Looking for ways to manipulate the current system
    - i.e. hide certain profits for changing the accounting

Conceptual framework for financial reporting; recognition and measurement concepts:
- assumptions
    - Economic entity → entity itself is separated from its legal entity
    - Going concern → if you know that you will not have business in the next twelve months, you have to report that (i.e. not enough cash)
    - Monetary unit → in order to be recorded, something has to have monetary value
    - Periodicity → manipulate the time-period/system

Recognition and measurement concepts:
Principles:
- Historical cost
- Revenue recognition
- Matching
- Full disclosure

Constraints:
- Cost-benefit
- Materiality (if you say it will be 18 degrees, but it will eventually be only 4 degrees, it is a material error, because you would dress yourself and adapt yourself in another way now. 16 degrees eventually would not change anything

Qualitative characteristics:
- Relevance and reliability
- Comparability and consistency

Shares have a fair-market value → price is just as it is at that moment

Financial statements:

- The balance sheet: presents information about an entity's assets, liabilities, and shareholders' equity, where the compiled result must match this formula, which is called the *accounting equation*:

  Total assets = Total liabilities + equity
- The income statement: contains the results of an organization's operations for a specific period of time, showing revenues and expenses and the resulting profit or loss. The typical period covered by an income statement is for a month, quarter, or year
- The statement of cash flows: is used to identify the different types of cash payments made by a business to third parties (cash outflows), as well as payments made to a business by third parties (cash inflows) and provides valuable information about the cash status of a business

Responsibility for financial statements:

- Company management is responsible for financial statements
- Company's board of directors and senior management set the code of conduct
- Company's 'ethic' - the standard by which all other employees will tend to conduct themselves

Fraud in combination with the accounting principles can be done by:

- Playing the accounting system: the use of a company's accounting system to get desired results by manipulating the system
- Beating the accounting system
- Going outside the accounting system

Topic 12 Financial Statement Fraud

Financial statement fraud

➔ Deliberate misstatements or omissions of amounts or disclosures of financial statements to deceive financial statement users, particularly investors and creditors

Defining financial statement fraud:

- Falsification, alteration, or manipulation of material financial records, supporting documents, or business transactions
- Material intentional omissions or misrepresentations of events, transactions, accounts, or other significant information from which financial statements are prepared
- Deliberate misapplication of accounting principles, policies, and procedures used to measure, recognize, report, and disclose economic events and business transactions
- Intentional omissions of disclosures, or presentation of inadequate disclosures, regarding accounting principles and policies and related financial amounts

Costs of financial statement fraud:

- In addition to the direct economic losses of fraud are:
    - Legal costs; increased insurance costs; loss of productivity; adverse impacts on employees' morale; customers' goodwill, and suppliers' trust; and negative stock market reactions
      These costs are impossible to measure
- Undermines the reliability, quality, transparency, and integrity of the financial reporting process
- Jeopardizes the integrity and objectivity of the auditing profession
- Diminishes the confidence of the capital markets
- Makes the capital markets less efficient
- Adversely affects the nation's economic growth
- Results in huge litigation costs
- Destroys careers of individuals involved
- Causes bankruptcy or substantial economic losses by the company engaged in financial statement fraud
- Encourages regulatory intervention
- Causes devastation in the normal operations and performance of alleged companies
- Raises serious doubt about the efficacy of financial statement audits
- Erodes public confidence and trust in the accounting and auditing profession

Methods of financial statement fraud:

1) Fictitious revenues (second biggest)
2) Timing differences (biggest type of financial fraud)
3) Improper asset valuations
4) Concealed liabilities and expenses
5) Improper disclosures

1) Recording of goods or services that did not occur
    - Fake or phantom customers
    - Legitimate customers
    - Sales with conditions → manipulate the process/policy
    - Pressures to boost revenues

Red Flags - fictitious revenues:

- rapid growth or unusual profitability, especially compared to that of other companies in the same industry
- Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth
- Significant transactions with related parties or special purpose entities not in the ordinary course of business or where those entities are not audited or are audited by another firm
- Significant, unusual, or highly complex transactions, especially those close to period-end that pose difficult 'substance over form' questions
- Unusual growth in the number of days' sales in receivables

- A significant volume of sales to entities whose substance and ownership are not known
- An unusual surge in sales by a minority of units within a company, or of sales recorded by corporate headquarters

2) Timing differences:

- Recording revenue and/or expenses in improper periods
- Shifting revenues or expenses between one period and the next, increasing or decreasing earnings as desired
- Matching revenues with expenses
- Premature revenue recognition
- Long-term contracts
- Channel stuffing
- Recording expenses in the wrong period

Red Flags - timing differences

- rapid growth or unusual profitability, especially compared to that of other companies in the same industry
- recurring negative cash flows from operations, or an ability to generate cash flows from operations, while reporting earnings and earnings growth
- significant, unusual, or highly complex transactions, especially those close to period-end that pose difficult 'substance over form' questions
- Unusual increase in gross margin or margin in excess of industry peers
- Unusual growth in the number of days' sales in receivables
- Unusual decline in the number of days' purchases in accounts payable

3) Improper asset valuation:

- Inventory valuation
- Accounts receivable
- Business combinations
- Fixed assets

Red Flags:

- Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth
- Significant declines in customer demand and increasing business failures in either the industry or overall economy
- Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate
- Nonfinancial management's excessive participation in or preoccupation with the selection of accounting principles or the determination of significant estimates
- Unusual increase in gross margin or margin in excess of industry peers

4) Concealed liabilities:

- Liability/expense omissions
- Capitalized expenses → take invoice which was a true expense but post it as an assets on the balance
- Failure to disclose warranty costs and liabilities

Red Flags:

- Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth
- Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate
- Non-Financial management's excessive participation in or preoccupation with the selection of accounting principles or the determination of significant estimates

5) Improper Disclosures:

- Liability omissions
- Subsequent events
- Management fraud
- Related-party transactions
- Accounting changes

Red Flags:

- Domination of management by a single person or small group (in a non-owner managed business) without compensating controls
- Ineffective board of directors or audit committee oversight over the financial reporting process and internal control
- Ineffective communication, implementation, support, or enforcement of the entity's values or ethical standards by management, or the communication of inappropriate values or ethical standards
- Rapid growth or unusual profitability
- significant, unusual, or highly complex transactions, especially those close to period-end that pose difficult 'substance over form' questions
- significant related-party transactions not in the ordinary course of business, or with related entities not audited or audited by another firm
- significant bank accounts, or subsidiary or branch operations, in tax haven jurisdictions for which there appears to be no clear business justification
- overly complex organizational structure involving unusual legal entities or managerial lines of authority
- known history of violations of securities laws or other laws and regulations; or claims against the entity, its senior management, or board members, alleging fraud or violations of laws and regulations
- recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality

- formal or informal restrictions on the auditor that inappropriately limit access to people or information or the ability to communicate effectively with the board of directors or audit committee

Financial statement analysis:

- Vertical analysis
  - analyzes relationships between items on an income statement, balance sheet, or statement of cash flows by expressing components as percentages
- Horizontal analysis
  - analyzes the percentage change in individual financial statement items
- Ratio analysis
  - measures the relationship between two different financial statement amounts

Typical question: the current ratio increased from … to … , what fraud could it be?

Current ratio = current assets/current liabilities
Quick ratio = (Cash + Securities + Receivables)/Current Liabilities
Quick ratio is most liquid assets (inventory fraud not included)

Receivable Turnover: (Net Sales on Account)/ Average Net Receivables
Collection Ratio: 365/Receivable Turnover

If collection ratio increases, it could mean that you record receivables you are never going to collect

Inventory Turnover: Cost of Goods Sold/Average inventory
Days in Inventory: 365/Inventory turnover

Deterrence of financial statement fraud:

1. Reduce pressures to commit financial statement fraud
2. Reduce the opportunity to commit financial statement fraud
3. Reduce rationalization of financial statement fraud

1. .
   - establish effective board oversight of the 'tone at the top' created by management
   - avoid setting unachievable financial goals
   - avoid applying excessive pressure on employees to achieve goals
   - change goals if changed market conditions require it
   - ensure compensation systems are fair and do not create incentive to commit fraud
   - discourage excessive external expectations of future corporate performance
   - remove operational obstacles blocking effective performance
2. .
   - maintain accurate and complete internal accounting records
   - carefully monitor the business transactions and interpersonal relationships of suppliers, buyers, purchasing agents, sales representatives, and others who participate in the transactions between financial units

- establish a physical security system to secure company assets, including finished goods, cash, capital equipment, tools, and other valuable items
- maintain accurate personnel records, including background checks on new employee
- encourage strong supervisory and leadership relationships within groups to ensure enforcement of accounting procedures
- establish clear and uniform accounting procedures with no exception clauses

3. .
    - promote strong values, based on integrity, throughout the organization
    - have policies that clearly define prohibited behavior with respect to accounting and financial statement fraud
    - provide regular training to all employees, communicating prohibited behavior
    - have confidential advice and reporting mechanisms to communicate inappropriate behavior
    - have senior executives communicate to employees that integrity takes priority and that goals must never be achieved through fraud
    - ensure management practices what it preaches and sets an example by promoting honesty in the accounting area
    - clearly communicate the consequences of violating the rules and the punishment for violators

A corruption scheme in which several bidders conspire to split contracts, thereby ensuring that each gets a certain amount of work, is known as: Bid Pooling

Topic 13 External Fraud Schemes

External fraud = unauthorized activity, theft, or fraud carried out by a third party outside the institution that is the subject of the fraudulent behavior
Sources of external fraud:

- Customers
- Vendors
- Unrelated third parties

Concern for a company because:

- impossible to conduct business without interacting with outsiders
- exposure to the public

Particularly concerned firms which

- In possession of large amounts of proprietary data (valuable receipt like medicine development
- houses large amounts of customer payment data
- has in-house manufacturing facilities

- participates in significant R&D

Threats from customers:

1) Cheque Fraud
    - *Counterfeit cheque*: small business employees do not have the time, resources, or expertise to scrutinize all checks
    - *E-commerce check scams*: the victim offers something for sale on the internet and after the check is deposited, but doesn't clear, the fraudster asks for a refund and pockets the cash
2) Credit Card Fraud: the misuse of a credit card to make purchases without authorization, or counterfeiting a credit card

Threats from vendors:

1) Collusion among contractors
    - Complementary bids: bids that are rationally too high to accept
    - Bid rotation: two or more contractors conspire to rotate business between them
    - Phony bids: shell-companies that are placing bids
2) Contract performance schemes
    - Costs are typically mischarged

Threats from unrelated third parties:

1) Computer Fraud: problem is that this lacks a paper audit trail
2) Corporate espionage

Topic 14 Fraud Risk Assessments

Fraud Risk: vulnerability an organization has to overcoming the interrelated elements that enable someone to commit fraud

Fraud Risk assessment is a process aimed at proactively identifying and addressing an organization's vulnerabilities to internal and external fraud
Can be done by assessing internal controls of a firm

Considerations that should be made for developing an effective assessment:

- Packaging it right
- One size does not fit all: look at what is best for that specific firm
- Keeping it simple

Evaluating which people and departments are most likely to commit fraud and identifying the methods they use. Thereby 'mapping' preventive and detective controls

The fraud risk assessment should be a combination of:

- Avoid the risk
- Transfer the risk
- Mitigate the risk
- Assume the risk

Auditors should validate that the organization is managing the moderate-to-high fraud risks

Topic 15 Conducting Investigations and Writing Reports

There should be an 'Investigation Team' in which are people that 1) can legitimately assist in the investigation and 2) have a genuine interest in the outcome of the investigation

Obtaining evidence of fraud can be done by:

- Covert operations: this is only legal if sufficient probable cause that a crime has been committed
- Surveillance
- 'Dumpster diving': sifting through suspect's trash which can be done without search warrant because the stuff has left possession

Also important is to investigate the 'Chain of Custody' → record when item is received or when it leaves custody

A good investigation report:

- Conveys evidence
- Adds credibility
- Accomplishes objectives of the case
- Is written with the expected reader of the report in mind

Topic 16 Interviewing Witnesses

When conducting an interview with a witness there are several types of questions to ask and keep in mind that these questions should be iteratively asked

Types of questions:

1) *Introductory*
    - Ask non-sensitive questions
2) Informational

- Ask non-leading (open) questions

3) Assessment
   - Establishes the credibility of the respondent
   - Use the 'physiology of deception' which states that people only lie because either they are 1) receive awards or either they 2) avoid punishment
4) Closing
   - Reconfirming facts
   - Gathering additional facts
   - Concluding the interview
5) Admission-seeking
   - Distinguish the innocent from the culpable, by the following steps:
     - Direct accusation
     - Observe reaction
     - Repeat accusation
     - Interrupt denials
     - Establish rationalization
     - Diffuse alibis
     - Benchmark admission
     - Verbal confession
     - Taking a signed statement

General overview

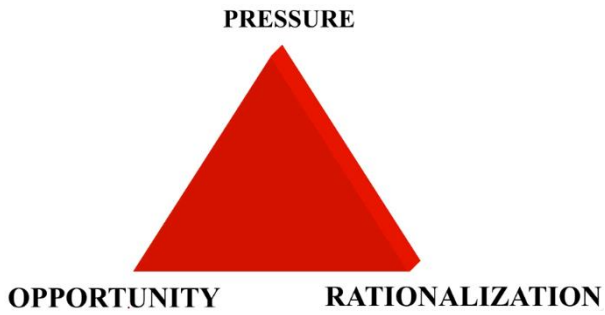
Larceny = taking assets without permission

Difference between auditing and fraud examination:

	Auditing	**Fraud Examination**
Timing	Recurring	Non-recurring
Scope	General	Specific
Objective	Opinion	Affix blame
Relationship	Non-adversarial	Adversarial
Methodology	Audit techniques	Fraud examination techniques
Presumption	Professional skepticism	Proof

Edwin H. Sutherland spoke about the 'theory of differential association', which meant that crime is learned through interaction with other individuals and is not genetic

Fraud Triangle:



The Fraud Triangle gives the only three assumptions under which fraud can be committed. Someone needs *1) Pressure* to commit fraud, *2) the Opportunity* to commit fraud and *3) Rationalization* is needed in order to 'belief' that committing fraud is a way to fill your needs.

Fraud Diamond is another, more complete example from the Fraud Triangle, where the factor 'capability' is taken into account

Types of fraud schemes:

1) Skimming = theft of cash from a victim entity prior to its entry in an accounting system → 'off-book' fraud

   Types:

   ➔ *Cash-larceny schemes*: intential taking away of an employer's cash without the consent and against the will of the employer. Cash larceny involves the theft of 'on-book' funds

2) Billing Schemes: the perpetrator uses false documentation to cause a payment to be issued

   Types:

   ➔ *Shell-company Schemes*: fictitious organizations are created for the sole purpose of committing fraud

   ➔ *Non-accomplice vendors*: vendor is not a part of the scheme and completely innocent

   - *Pay-and-return Schemes*: the employee intentionally mishandles payments that are owed to legitimate vendors

   ➔ *Personal Purchases Schemes*: employees make personal purchases for themselves, their friends, family or business using company funds

   ➔ *Pass-through Schemes*: a fraudster sells actual goods or service to victim companies. Purchased goods or services are marked-up and sold to the employer through the shell-company

3) Cheque Tampering Schemes: perpetrator physically prepares the fraudulent cheque

   Types:

   ➔ *Forged Maker Schemes*: an employee misappropriates a cheque and fraudulently affixes the signature of an authorized maker

   ➔ *Forged Endorsement Schemes*: an employee intercepts a company cheque intended for a third party and signs the third's party name on the endorsement line of the cheque

   ➔ *Altered Payee Schemes*: an employee intercepts a company cheque intended for a third party and payee designation is altered so the cheque can be converted

   ➔ *Concealed Cheque Schemes*: an employee prepares a fraudulent cheque and summits it along with legitimate cheques

   ➔ *Authorized Maker Schemes*: an employee with signatory authority writes a fraudulent cheque

4) Electronic Payment Tampering: manipulate electronic payments
5) Payroll Schemes: occupational fraud in which a person who works for an organization causes that organization to issue a payment by making a false claim for compensation

   Types:
   - ➔ *Ghost-employee Schemes*: someone on the payroll who does not actually work for the victim company (fictitious person)
   - ➔ *Falsified Hours and Salary Schemes*: overpayment of wages
   - ➔ *Commission Schemes*: pay is based on employee's output rather than hours worked or a set salary. The amount of sales made is falsified or the rate of commission is fraudulently increased

6) Expense Reimbursement Schemes: employees are reimbursed for expenses paid on behalf of their employer
   Types:
   - ➔ *Mischaracterized expense reimbursements*
   - ➔ *Overstated expense reimbursements*
   - ➔ *Fictitious expenses*
   - ➔ *Multiple reimbursement schemes*: a single expense item is submitted several times to receive multiple amounts

7) Register Disbursement Schemes
   Types:
   - ➔ *False voids*: copy of customer's receipt is attached to the void slip
   - ➔ *False refunds*: a refund is processed when a customer returns an item of merchandise from the store

8) Non-cash asset schemes
   Types:
   - ➔ *Unconcealed Larceny Schemes*: some employees know their co-workers are stealing but refrain from reporting it
   - ➔ *The Fake Sale Scheme*: sale is not rung up but the accomplice takes the merchandise
   - ➔ *Asset Requisitions and Transfer Scheme*: basic scheme is to requisition materials to complete a work-related project, then steal the materials
   - ➔ *Purchasing and Receiving Schemes*: assets were intentionally purchased by the company, but misappropriated, then falsifying incoming shipments

9) Corruption Schemes
   Types:
   Bribery Schemes: offering, receiving, giving or soliciting anything of value to influence an official act
   - ➔ *Kickback Schemes*: involve submission of invoices for goods and services that are either overpriced or completely fictitious

- *Overbilling Schemes*: employee with approval authority overstates the actual goods or services or reflects fictitious sales
- *Slush Funds*: other side of transaction, funds can be paid as 'consulting fees'

➔ *Bid-rigging Schemes*: all bidders are expected to be on an even playing field, bidding on the same specifications

In the bid-rigging scheme there should be considered several different phases in the bidding process:
Pre-solicitation Phase: need of 'Recognition Schemes' and 'Specification Schemes' are likely to happen.

Recognition Schemes: schemes in which an employee of the purchasing company convinces the company that a particular project is necessary.

Specification Schemes: gives a vendor the right to see the specifications before his competitors get to see the specifications

Solicitation Phase: restricting the pool of vendors from which to choose

Submission Phase: in this phase fraud can be committed in the sealed-bid process which

means that for instance the last bid submitted will directly be awarded with the contract

➔ *Illegal Gratuities Schemes*: decision made to benefit a person or company but is not influenced by any sort of payment
➔ *Economic Extortion Scheme*: employee demands payments from a vendor in order to make a decision in the vendor's favor
➔ *Conflicts of Interest Schemes*: employee or manager or executive has an undisclosed economic or personal interest in a transaction that adversely affects the company
Hint: this is different from bribery because with a 'Conflict of Interest Scheme' the fraudster approves invoice because of own interest

- Other Conflict of Interest Schemes:
  - Business diversions: siphoning clients
  - Resource diversions: diverting funds
  - Financial disclosures

10) Purchasing Schemes

Types:

➔ *Purchasing Schemes*: fraudster uses influence to ensure the victim company does business with this particular vendor, not in interest of employer
➔ *Turnaround Sales Schemes*: employee knows that company wants a good. Purchases itself and sells it at inflated price

11) Sales Schemes

Types:

- ➔ *Underbilling-schemes*: goods are sold below fair market value for fraudster's interest
- ➔ *Writing off Sales Schemes*: purchases are made from the victim company and credit memos are later issued

12) Money Laundering Schemes: involves practices that hide the connection between the sources of funds and their ultimate use
    Money Laundering typically has three phases:
    1) Placement Phase: method to place money is 'smurfing' where the fraudster deposits lots of little amounts of money into various banks
    2) Layering Phase
    3) Integration Phase

13) Financial Statement Fraud: deliberate misstatements or omissions of amounts or disclosures of financial statements to deceive financial statements users, particularly investors and creditors

14) External Fraud Schemes: unauthorized activity, theft, or fraud carried out by a third party outside the institutions that is the subject of the fraudulent behaviour

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