CROWN AGENTS
ACCELERATING SELF-SUFFICIENCY & PROSPERITY

FINANCIAL MANAGEMENT OF DEVELOPMENT PROJECTS

13 – 24 May 2019

Programme Introduction

Course Aim

This course provides a detailed look at the financial management components within the project life cycle and provides an overview of the tools available for assessing financial management systems. It covers budgeting, accounting policies, financial management staffing considerations, procurement and contract management, audit and internal controls.

Objectives – by the end of this course, you will be able to:

- Adopt appropriate systems for managing projects and finances

- Assess weaknesses in your own financial systems

- Draw up and maintain financial plans and project financial accounts and reports

- Align financial management of procurement in accordance with international best practice

- Evaluate risks and establish an appropriate financial control environment

Course Time-table – see hand-out

Daily Agenda

Day 8

1. Governance & Fraud Prevention
2. Case Study - Fraud
3. Course Visit
4. Course Visit

Financial Management of Development Projects
22 May 2019

GOVERNANCE & FRAUD PREVENTION

Session Introduction

Session Aim

- The primary responsibility for the prevention and detection of fraud rests with both those charged with governance… and management

Session Learning Objectives – by the end of this course, you will be able to:

- Define fraud & misconduct

- Discuss driving forces in fraud

- Examine the impact of fraud and misconduct

- Consider the responsibility of those charged with governance to prevent fraud

Session Agenda

Our Learning Journey – how we will achieve our objectives:

1. Define fraud and misconduct

2. Describe the essential factors leading to fraud

3. Review recent international fraud statistics

Fraud & misconduct

- Fraud

  - *Wrongful or criminal deception intended to result in financial or personal gain*

- Misconduct

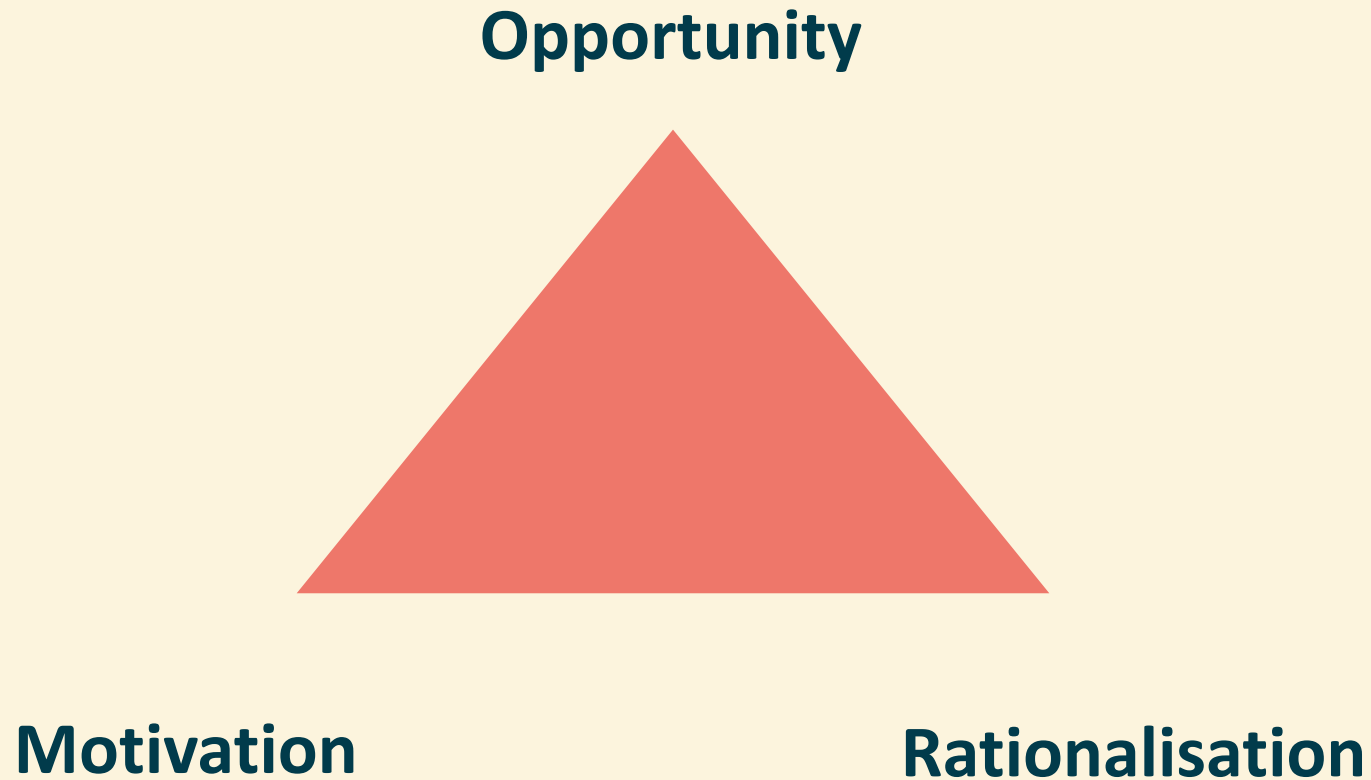 - *Unacceptable or improper behaviour*

Fraud & misconduct
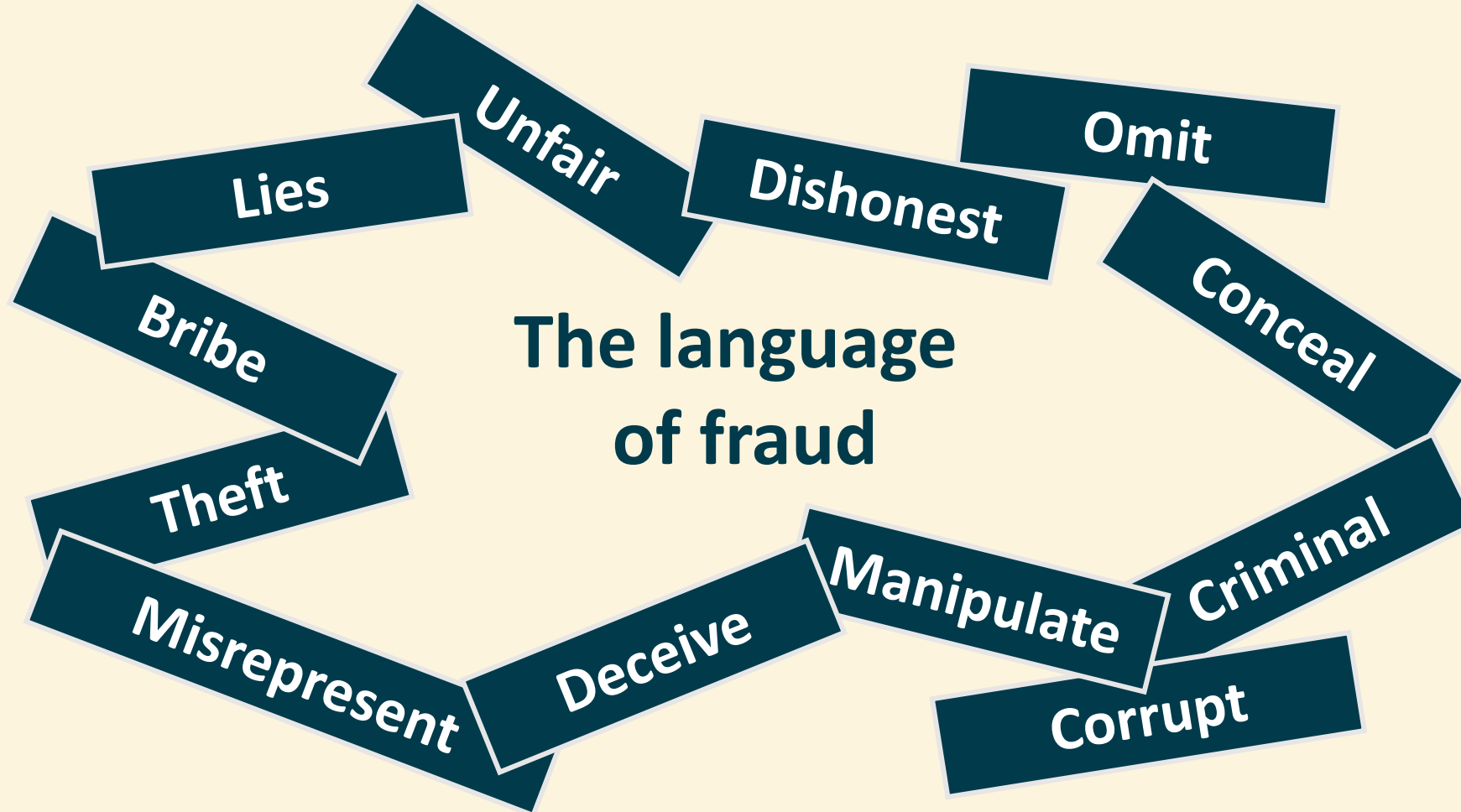
Impact of fraud...

Some or all of the following:

- Financial loss
- Damaged reputation
- Reduced charitable donations
- Loss of end-user confidence
- Damage to morale / motivation
- Job losses
- Investigation costs
- Diversion of management time

The fraud triangle – what drives fraud?

Opportunity

Motivation

Rationalisation

The fraud triangle – motivation

Examples could be…?

Motivation

The fraud triangle – motivation

Revenge

Addiction – drink, drugs, gambling

Debts

"Results at any cost"

Coercion or blackmail

Family pressures

"I need the money"

Illness

The fraud triangle – what drives fraud?

Opportunity
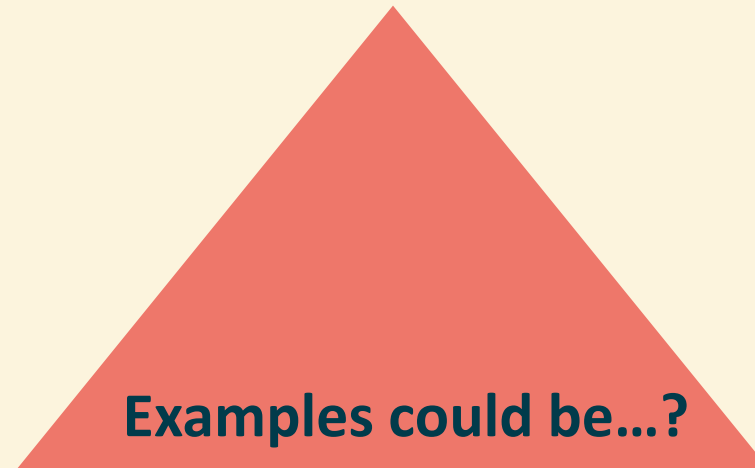
Examples could be…?

The fraud triangle - opportunity

Poor controls

Fraud can be hidden in complex transactions

Exploiting errors

Abuse of authority

Lack of segregation of duties

Poor corporate governance

Lack of effective oversight
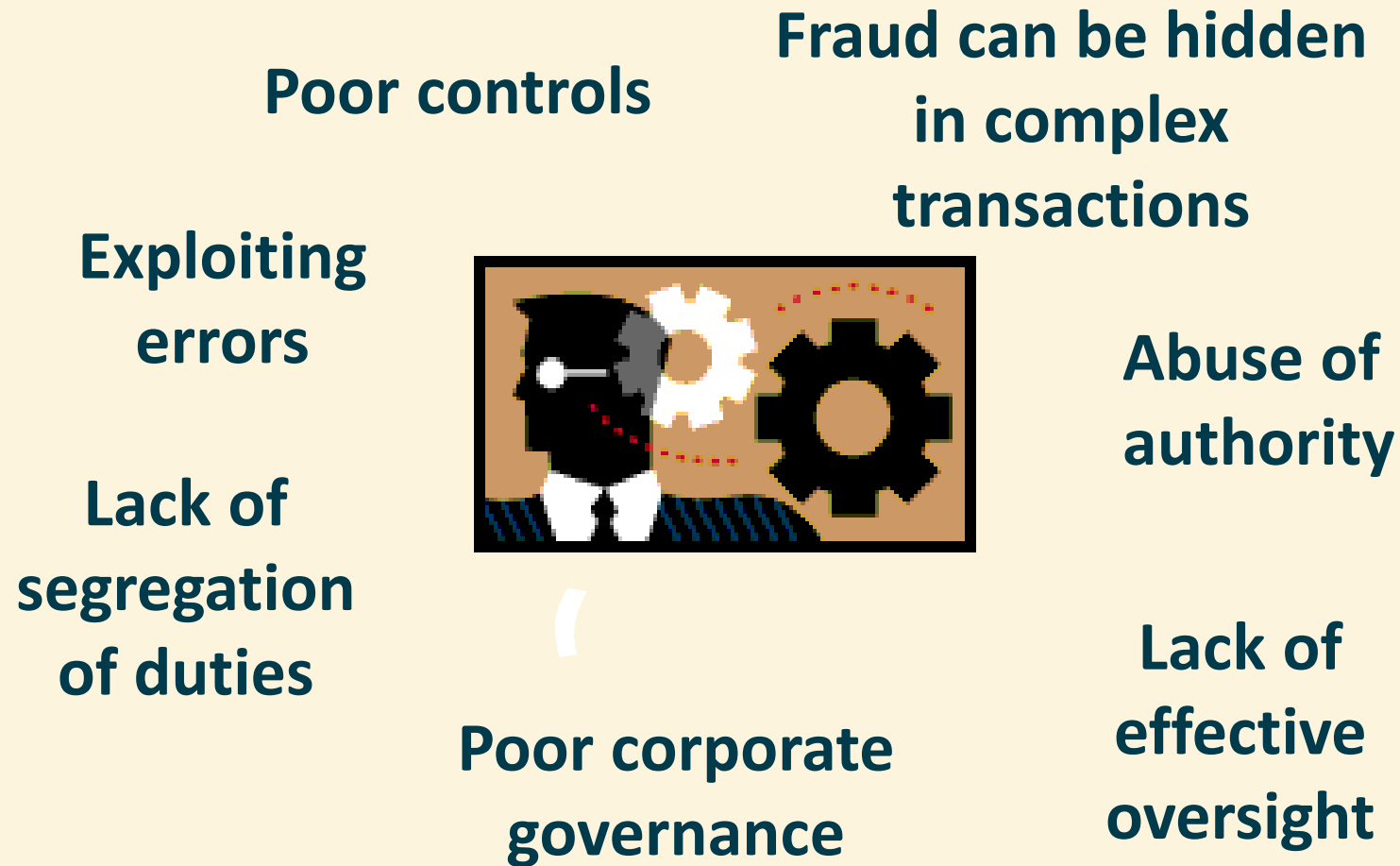
The fraud triangle – what drives fraud?

Examples could be…?

Rationalisation

The fraud triangle - rationalisation

"They do not pay me enough!"
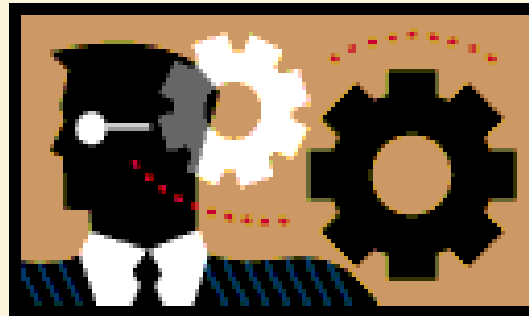
"Rules are made to be broken"

"Everyone else does it"

"Who cares?"

"It's only a small amount"

"I'm the boss!"

"It's a victimless crime"

"They can afford it"

"It's a cost of doing business"

"I'll never get caught!"

Fraud types

Fraud statistics

ASSET MISAPPROPRIATION SCHEMES
are the most common and least costly

$114,000
median loss

89%
of cases

$800,000
median loss

FINANCIAL STATEMENT FRAUD SCHEMES
are the least common and most costly
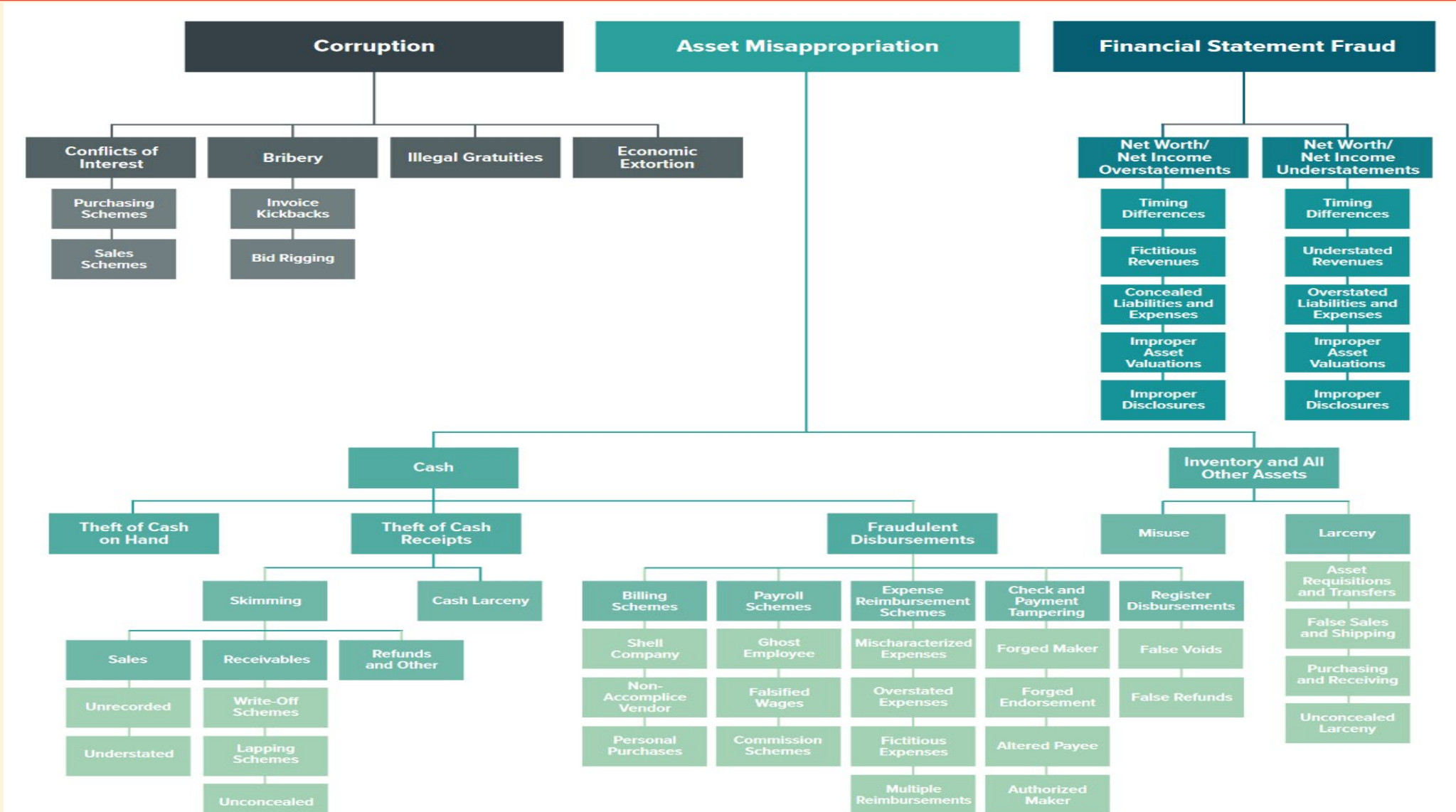
10%
of cases
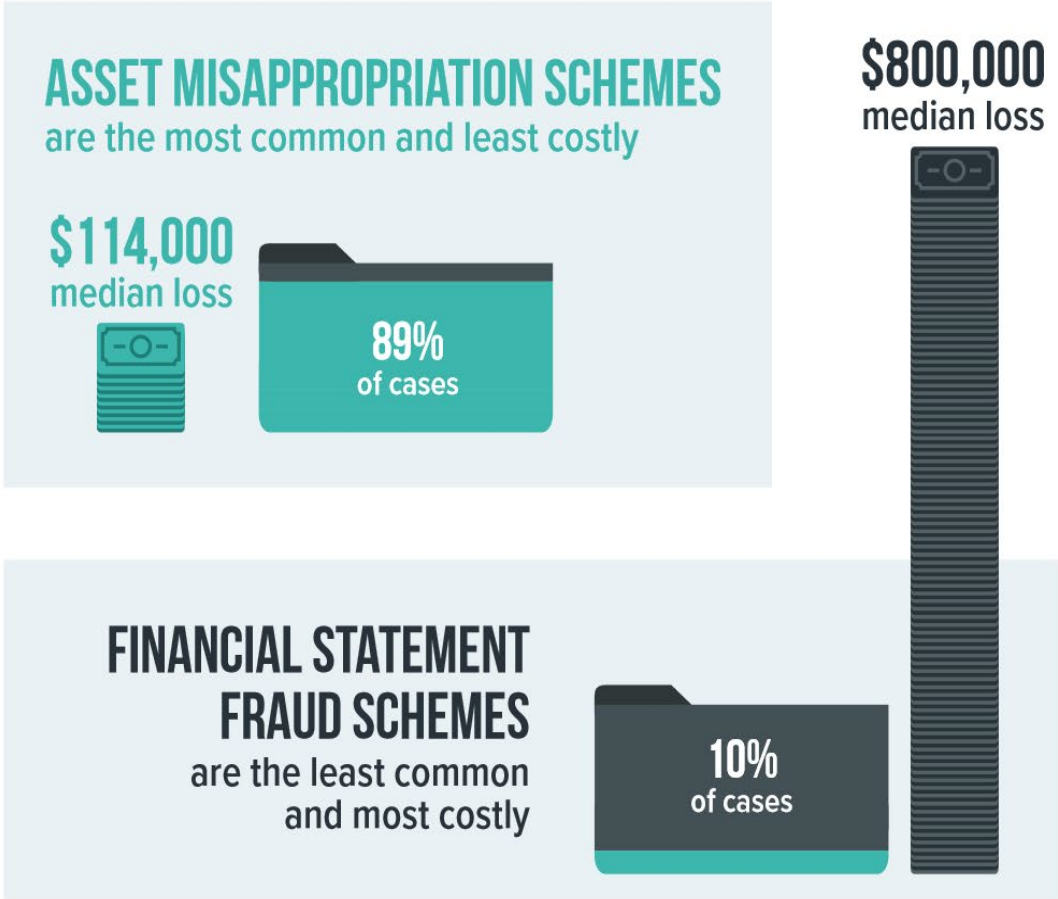
TIPS are by far the most common initial detection method

TIPS 40%

INTERNAL AUDIT 15%

MANAGEMENT REVIEW 13%

EMPLOYEES
provide over half of tips, and nearly 1/3 come from **OUTSIDE PARTIES**
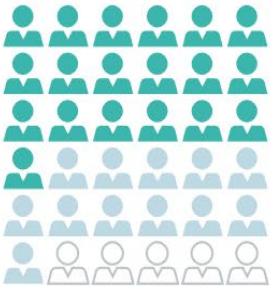
ORGANIZATIONS WITH HOTLINES
detect fraud by tips more often

46%
OF CASES DETECTED BY TIP

HOTLINES

30%
OF CASES DETECTED BY TIP

NO HOTLINES
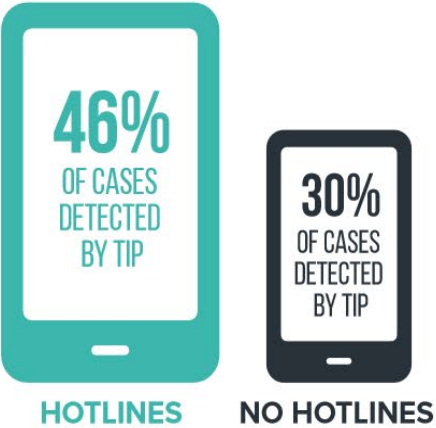
Fraud statistics

INTERNAL CONTROL WEAKNESSES
WERE RESPONSIBLE FOR NEARLY
HALF OF FRAUDS

Fraud statistics
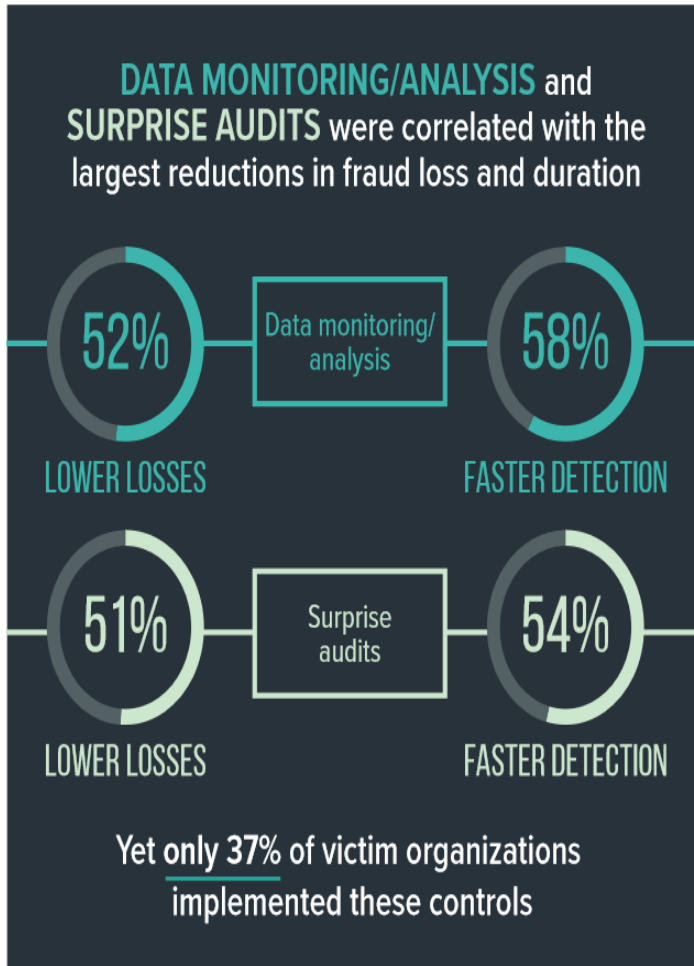
DATA MONITORING/ANALYSIS and SURPRISE AUDITS were correlated with the largest reductions in fraud loss and duration

52% Data monitoring/analysis **58%**

LOWER LOSSES — FASTER DETECTION

51% Surprise audits **54%**

LOWER LOSSES — FASTER DETECTION

Yet only 37% of victim organizations implemented these controls

85% OF FRAUDSTERS

DISPLAYED AT LEAST ONE BEHAVIORAL **RED FLAG OF FRAUD**

FRAUDSTERS WHO HAD BEEN WITH THEIR COMPANY LONGER STOLE TWICE AS MUCH

MORE THAN 5 YEARS' TENURE
$200,000
MEDIAN LOSS

LESS THAN 5 YEARS' TENURE
$100,000
MEDIAN LOSS

Fraud statistics

Fraud statistics

CONCEALING FRAUD

An act of fraud typically involves not only the commission of the scheme itself, but also efforts to conceal the misdeeds. Understanding the methods fraudsters use to cover their crimes can help organizations better design prevention mechanisms and detect the warning signs of fraud.

TOP 8 CONCEALMENT METHODS USED BY FRAUDSTERS

55%	48%	42%	34%	31%	30%	29%	27%
Created fraudulent physical documents	Altered physical documents	Created fraudulent transactions in the accounting system	Altered transactions in the accounting system	Altered electronic documents or files	Destroyed physical documents	Created fraudulent electronic documents or files	Created fraudulent journal entries

14 **How Occupational Fraud Is Committed** Report to the Nations

Fraud statistics

MEDIAN LOSS

PERCENT REDUCTION

Percent reduction values (left to right): 12%, 20%, 23%, 29%, 33%, 35%, 38%, 38%, 41%, 43%, 46%, 47%, 50%, 50%, 50%, 51%, 52%, 56%

Legend:
- Median loss without controls
- Median loss with controls

Categories (left to right):
Rewards for whistleblowers, Independent audit committee, Job rotation/mandatory vacation, External audit of financial statements, Dedicated fraud department, function, or team, Fraud training for managers/executives, Employee support programs, Formal fraud risk assessments, Fraud training for employees, Management certification of financial statements, Internal audit department, Anti-fraud policy, Hotline, Management review, External audit of internal controls over financial reporting, Surprise audits, Proactive data monitoring/analysis, Code of conduct

Fraud statistics

Control	Percent of cases	Control in place	Control not in place	Percent reduction
Code of conduct	80%	$110,000	$250,000	56%
Proactive data monitoring/analysis	37%	$ 80,000	$165,000	52%
Surprise audits	37%	$ 75,000	$152,000	51%
External audit of internal controls over financial reporting	67%	$100,000	$200,000	50%
Management review	66%	$100,000	$200,000	50%
Hotline	63%	$100,000	$200,000	50%
Anti-fraud policy	54%	$100,000	$190,000	47%
Internal audit department	73%	$108,000	$200,000	46%
Management certification of financial statements	72%	$109,000	$192,000	43%
Fraud training for employees	53%	$100,000	$169,000	41%
Formal fraud risk assessments	41%	$100,000	$162,000	38%
Employee support programs	54%	$100,000	$160,000	38%
Fraud training for managers/executives	52%	$100,000	$153,000	35%
Dedicated fraud department, function, or team	41%	$100,000	$150,000	33%
External audit of financial statements	80%	$120,000	$170,000	29%
Job rotation/mandatory vacation	19%	$100,000	$130,000	23%
Independent audit committee	61%	$120,000	$150,000	20%
Rewards for whistleblowers	12%	$110,000	$125,000	12%

Fraud statistics

FIG. 23 **How do internal control weaknesses vary by scheme type?**

Lack of internal controls
32%
25%
29%

Lack of management review
19%
15%
15%

Override of existing internal controls
18%
21%
14%

Poor tone at the top
9%
18%
23%

Lack of competent personnel in oversight roles
8%
6%
5%

Other
5%
7%
8%

Lack of independent checks/audits
4%
3%
5%

Lack of employee fraud education
2%
3%
<1%

Lack of clear lines of authority
2%
2%
0%

Lack of reporting mechanism
<1%
1%
1%

Asset misappropriation   Corruption   Financial statement fraud

Fraud statistics

FIG. 24 How does the perpetrator's level of authority relate to occupational fraud?

PERCENT OF CASES

- Employee: 44%
- Manager: 34%
- Owner/executive: 19%
- Other: 3%

MEDIAN LOSS

- Employee: $50,000
- Manager: $150,000
- Owner/executive: $850,000
- Other: $189,000
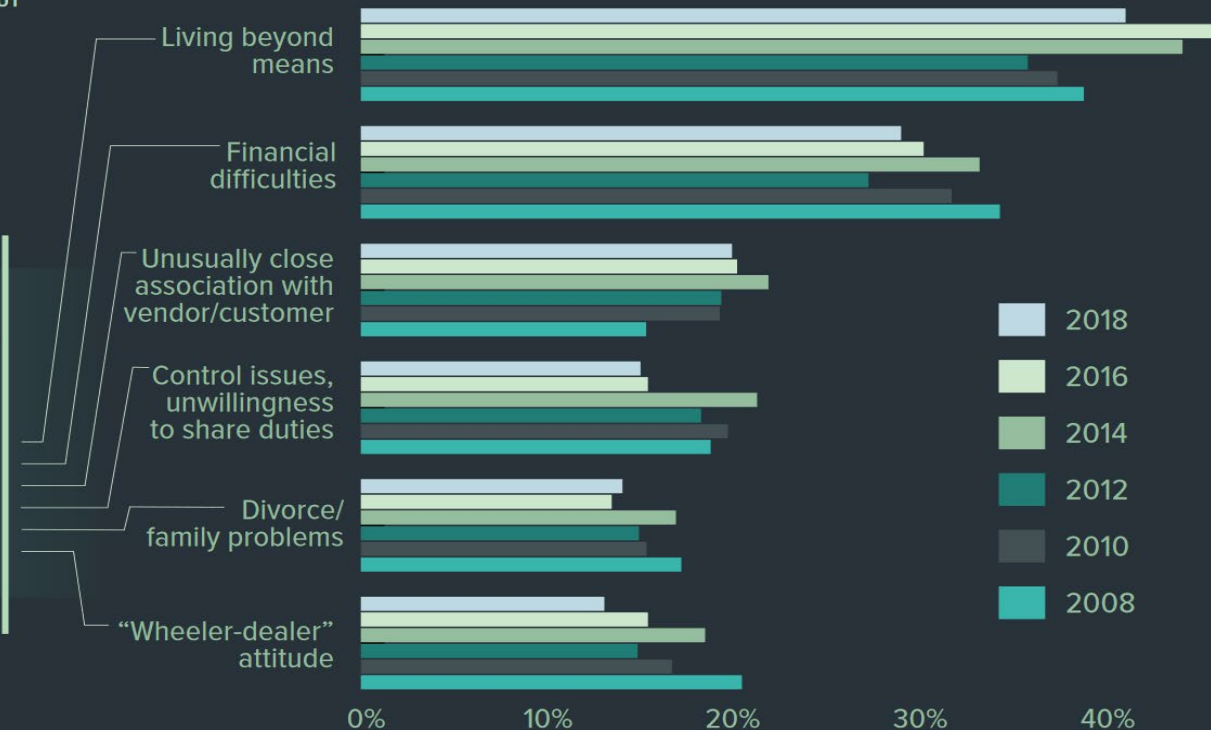
THE RED FLAGS OF FRAUD

Understanding and recognizing the behavioral red flags displayed by fraud perpetrators can help organizations detect fraud and mitigate losses.

IN
85%
OF CASES
FRAUDSTERS DISPLAYED AT LEAST ONE BEHAVIORAL RED FLAG

AND IN

50%
OF CASES
THEY EXHIBITED MULTIPLE RED FLAGS

These
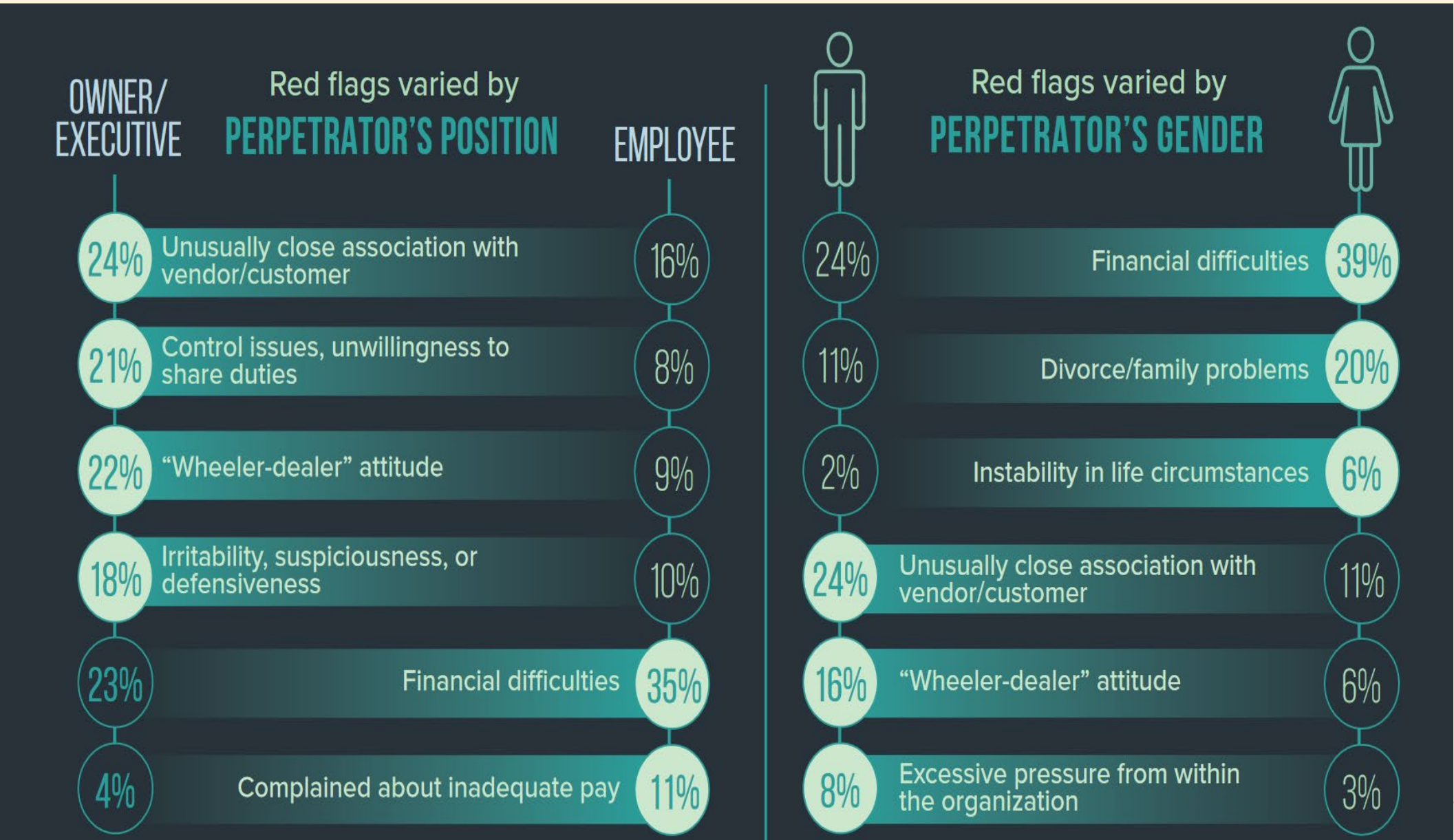6 BEHAVIORAL RED FLAGS

have been the most common in every one of our studies dating back to 2008, with a remarkably consistent distribution

Living beyond means
Financial difficulties
Unusually close association with vendor/customer
Control issues, unwillingness to share duties
Divorce/ family problems
"Wheeler-dealer" attitude

2018
2016
2014
2012
2010
2008

0%   10%   20%   30%   40%

gents 2018

Fraud statistics

Red flags varied by PERPETRATOR'S POSITION

OWNER/EXECUTIVE		EMPLOYEE
24%	Unusually close association with vendor/customer	16%
21%	Control issues, unwillingness to share duties	8%
22%	"Wheeler-dealer" attitude	9%
18%	Irritability, suspiciousness, or defensiveness	10%
23%	Financial difficulties	35%
4%	Complained about inadequate pay	11%

Red flags varied by PERPETRATOR'S GENDER

(male)		(female)
24%	Financial difficulties	39%
11%	Divorce/family problems	20%
2%	Instability in life circumstances	6%
24%	Unusually close association with vendor/customer	11%
16%	"Wheeler-dealer" attitude	6%
8%	Excessive pressure from within the organization	3%

28

Role of corporate governance

- Corporate governance refers to the policies and procedures according to which an organization is operated, regulated and controlled

- These processes are designed to protect the diverse interests of the organization's stakeholder groups

- Effective corporate governance measures are also essential to prevent corporate scandals, fraud, and potential civil and criminal liability

Roles & Responsibilities

- Management is responsible for the prevention and detection of fraud and corruption

- In conducting audit assignments the internal and external auditor shall be alert to opportunities, such as control weakness, that could allow fraud and corruption

- Internal audit is a management function and is therefore one tool management uses to prevent and detect fraud and corruption

- The activities of internal audit can not absolve the Accounting Officers from their responsibilities

Considerations

- Management has created and maintained a culture of honesty and ethical behaviour

- Internal Audit should be involved in the process

Control Environment

- Management philosophy

- Approach to taking and managing risks

- Attitudes to financial reporting

- Attitudes towards Information processing and accounting function

- Organisational structure

- Assignment of authority

- Human Resource policies and practices

Control Environment

- Communication and enforcement of integrity and ethical values
- Commitment to competence
- Involvement of those charged with governance
  - *Independence*
  - *Experience*
  - *Scrutiny of activities*
  - *Appropriateness of action*s
- Management philosophy

Whistleblowing activities

- Who reported to ?

- Is there a nominated individual who is independent form the organisation ?

- Is there policy and procedure in place?

- How is this communicated?

- Is Whistleblowing encouraged within a safe environment?

Session close

Let's wrap up the session:

- Recap of key learning

- Final questions?

- Revisit session objectives – achieved?

- Application of learning – update your action plans

- What's next?

THANK YOU /

CROWN AGENTS

ACCELERATING SELF-SUFFICIENCY & PROSPERITY