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By reporting the results of our audits to the Legislative Assembly, we help hold government and public bodies to account for the way they use public money, thereby safeguarding the interests of citizens. In addition, our work aims to help public service managers improve performance and service delivery.

For further information please contact the Office of the Auditor General at 244-3211 or at auditorgeneral@oag.gov.ky



FRAUD: CAN YOU AFFORD TO IGNORE IT

Information Series

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FRAUD: FACTS AND FIGURES

- It is estimated that the typical organisation loses 5% of its revenues to fraud each year.
- In 2012 the median loss caused by reported occupational fraud cases was \$140,000 (the median for Caribbean and Latin America was \$350,000). More than one-fifth of these cases caused losses of at least \$1 million.
- Reported frauds lasted a median of 18 months before being detected
- Occupational fraud is more likely to be detected by a tip than by any other method. The majority of tips reporting fraud come from employees of the victim organisation
- Asset misappropriation schemes are the most common type of occupational fraud, comprising 87% of the cases reported
- The presence of anti-fraud controls is highly correlated with significant decreases in the cost and duration of occupational fraud schemes.
- Perpetrators with higher levels of authority tend to cause much larger losses
- Most occupational fraudsters are first-time offenders with clean employment histories
- In 81% of cases, the fraudster displayed one or more behavioral red flags that are often associated with fraudulent conduct. Living beyond means (36% of cases), financial difficulties (27%), unusually close association with vendors or customers (19%) and excessive control issues (18%)

Source: Association of Certified Fraud Examiners – 2012 Global Fraud Study

RED FLAGS

There are a number of warning signs that can indicate that there may be a problem within your organisation. These should not be taken alone as evidence that fraud is occurring within the organisation; there may be other legitimate explanations for the occurrence of these indicators. They should be used to assess and manage the risk of fraud within your organisation.

The following is a list of potential red flags or fraud indicators. The list is not exhaustive but provides a reference point for considering fraud risks.

Personnel/Behavioural

- consistently working longer hours than colleagues for no apparent reason
- reluctance to take vacations, sick leave and/or time off
- refusing promotions
- sudden changes in lifestyle and/or social circle e.g. expensive cars, jewelry, homes, clothes
- changes in personal behaviour: these may be an indication of drugs, alcohol, gambling
- aggressive or defensive behaviour when challenged
- Providing unreasonable responses to questions or easily annoyed at reasonable questioning
- reluctance to provide information to auditors
- competing or undeclared external business interests

Financial

- lack of segregation of duties
- weak internal control environment and consistent failures to address major weaknesses
- delaying audits and/or requesting significant detail about proposed audit scopes
- disorganized operations in areas such as accounting, payroll or purchasing
- excessive cash-only transactions
- bank and ledger reconciliations are not maintained or cannot be balanced
- unusual transactions or transactions not consistent with the entity's business
- numerous adjustments, errors or exceptions
- large volume of refunds to customers.
- large payments to individuals
- unusually large inventories
- missing, altered or photocopied documents such as expenditure vouchers and official records
- excessive number of year end transactions
- excessive variations to budgets or contracts

Procedural

- management frequently overriding controls and policies
- inadequate monitoring or supervision by senior managers
- employees making procedural or computer-system enquiries inconsistent or not related to their normal duties.
- deficient screening for new employees including temporary staff, contractors and consultants
- insufficient oversight/audit. an unusual number of customer complaints.
- suppliers/contractors insisting on dealing with just one individual.
- tendering to one supplier only or to the same suppliers.
- defining needs in ways that can only be met by specific contractors
- vague specifications.
- splitting up procurement requirements to avoid prescribed procedures and controls.

FRAUD PREVENTION AND RESPONSE

Organisations can take action to manage the risk of fraud and minimize the opportunities for it occurring. Actions organisations can take include:

- As part of the organisations risk management consider the red flags for fraud.
- Take account of changes in business activities and/or control procedures that may open up new potential fraud risks.
- Involve staff in identifying and discussing fraud risks and how to prevent fraud from occurring within your organisation.
- Educate all staff and raise awareness of fraud indicators.
- Implement systems and processes to detect the early warning signs of fraud.
- Establish a credible mechanism, including whistleblowing policies and procedures, for staff to report suspicions of fraud. Encourage an open culture where the reporting of genuine suspicions is acceptable.
- Be alert to possible collusion between staff and third parties.
- Ensure regular monitoring of compliance with fraud prevention and detection policies, processes and controls.
- Have a fraud response plan which outlines the policies and procedures to follow in the event of a fraud being discovered or suspected. This should clearly define roles and responsibilities.