



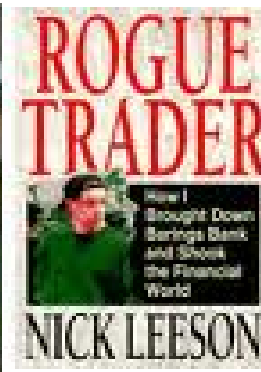
AUDIT COMMITTEE FORUM VOLUME 6

Fraud Risks: Challenges for Audit Committees

Failure in the past



จับรองผอ.ก.การเงินขอส.
กว่า 400 ล้านบาท.



แฉยาสูบรับสินบน 64ล.



LA film couple
sentenced in Thai
bribery case



Satyam Chief,
admitting scam,
quits

Agenda

Fraud Survey

Potential impact of fraud

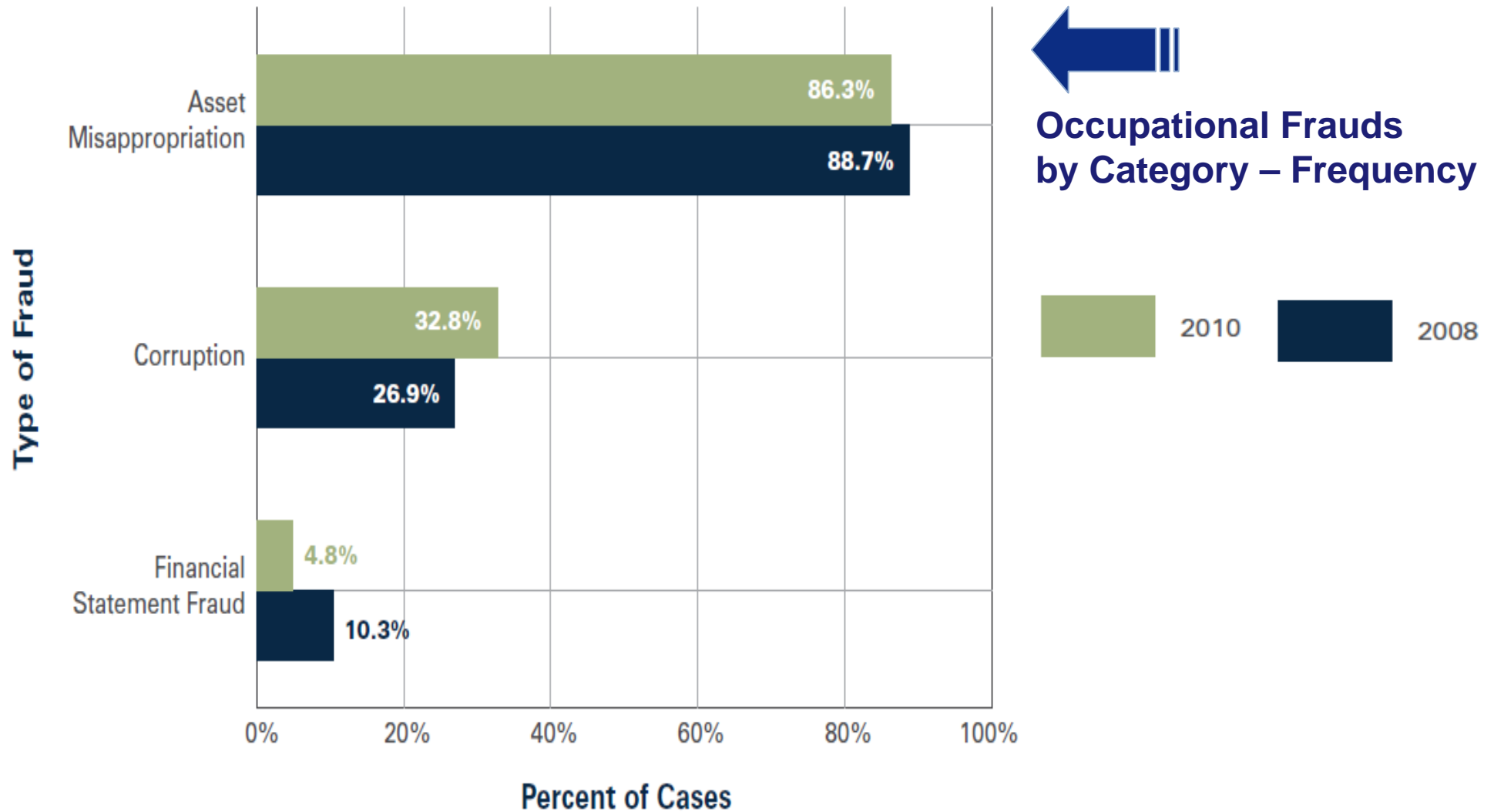
Roles & Responsibilities of the Audit Committee

Fraud risk management

The Fraud Triangle & Case study

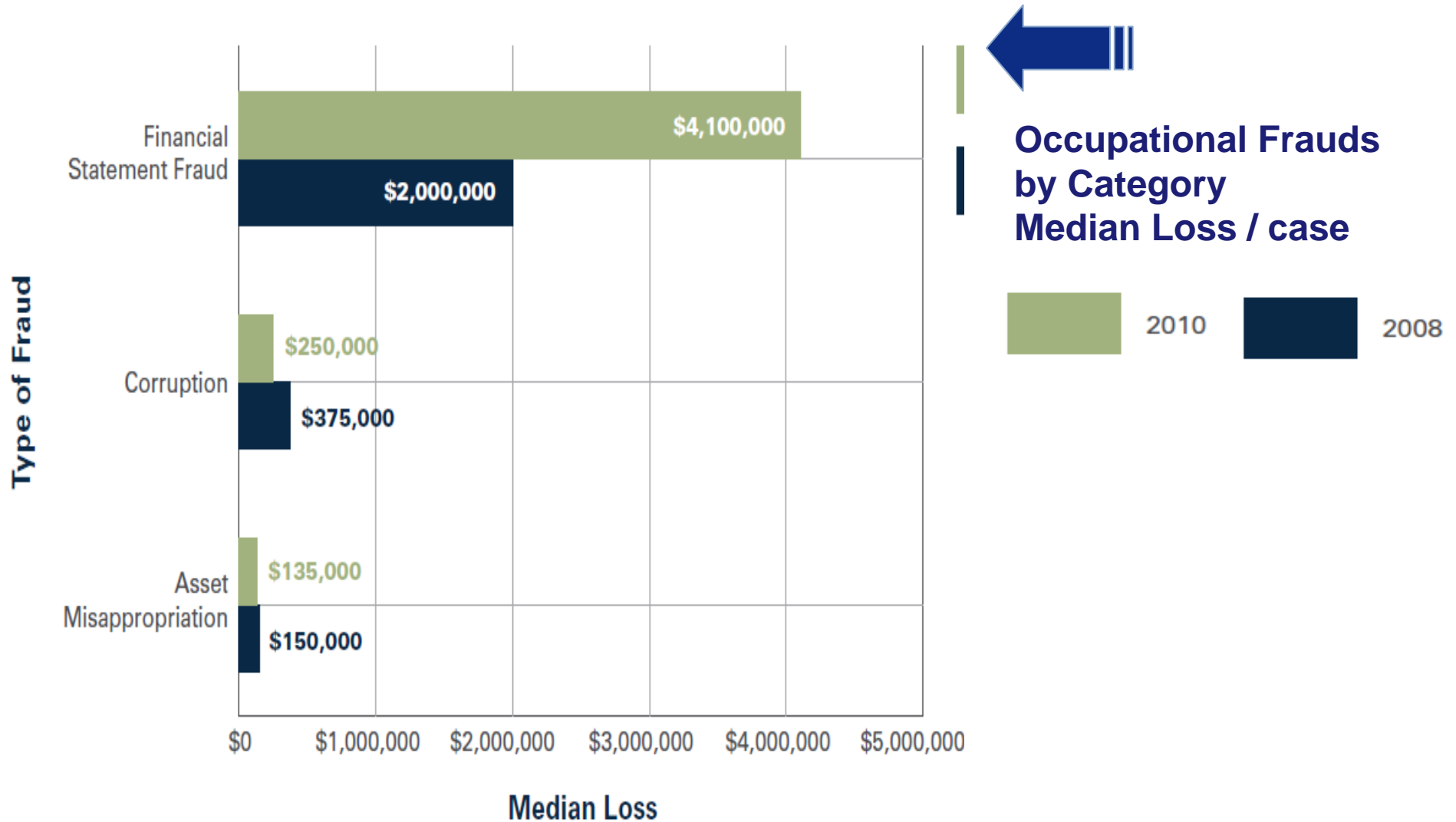


Results from Fraud Survey



Sources: Association of Certified Fraud Examiners – 2010 Global Fraud Study

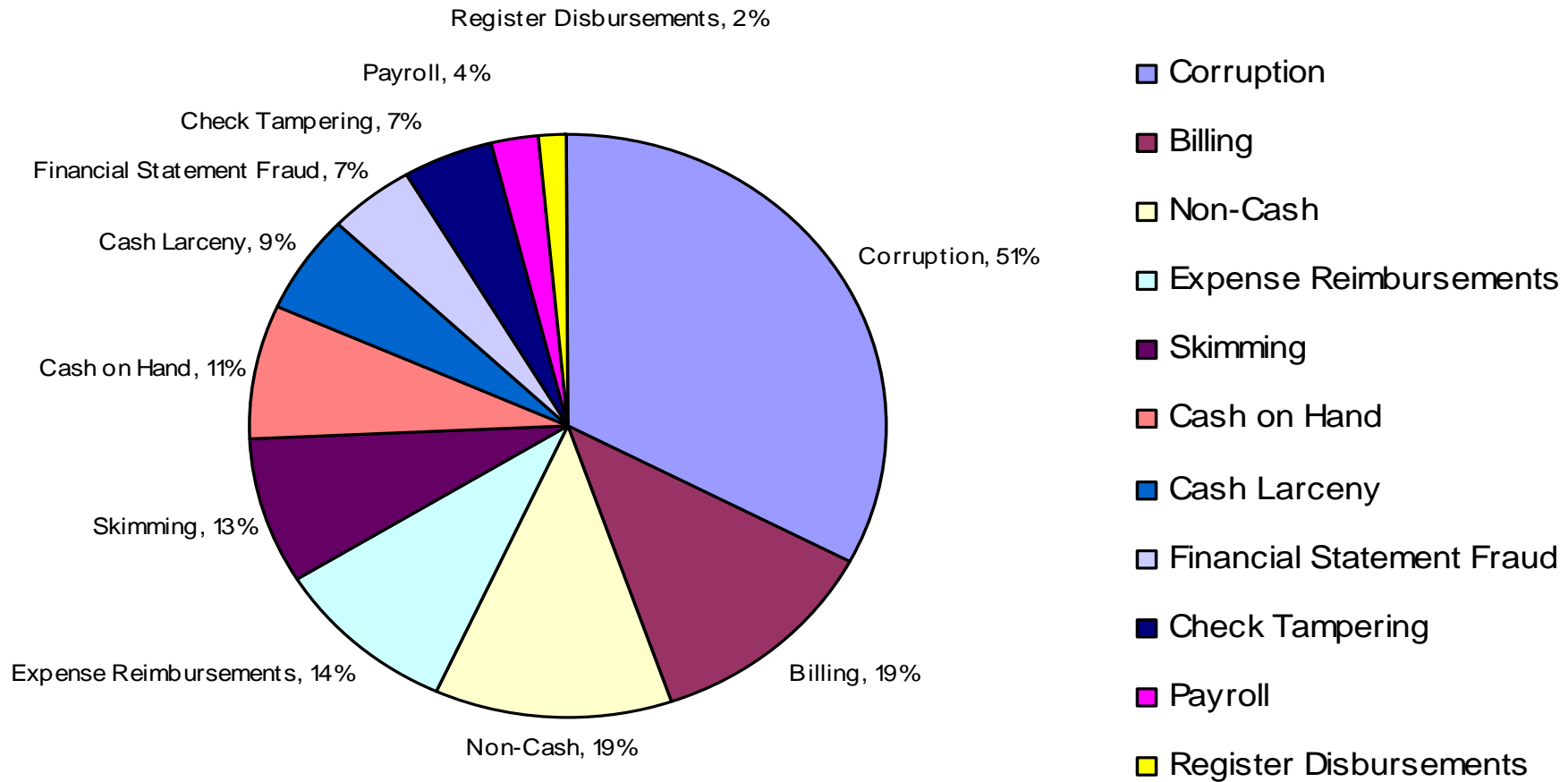
Results from Fraud Survey



Sources: Association of Certified Fraud Examiners – 2010 Global Fraud Study

Fraud Survey- Asia

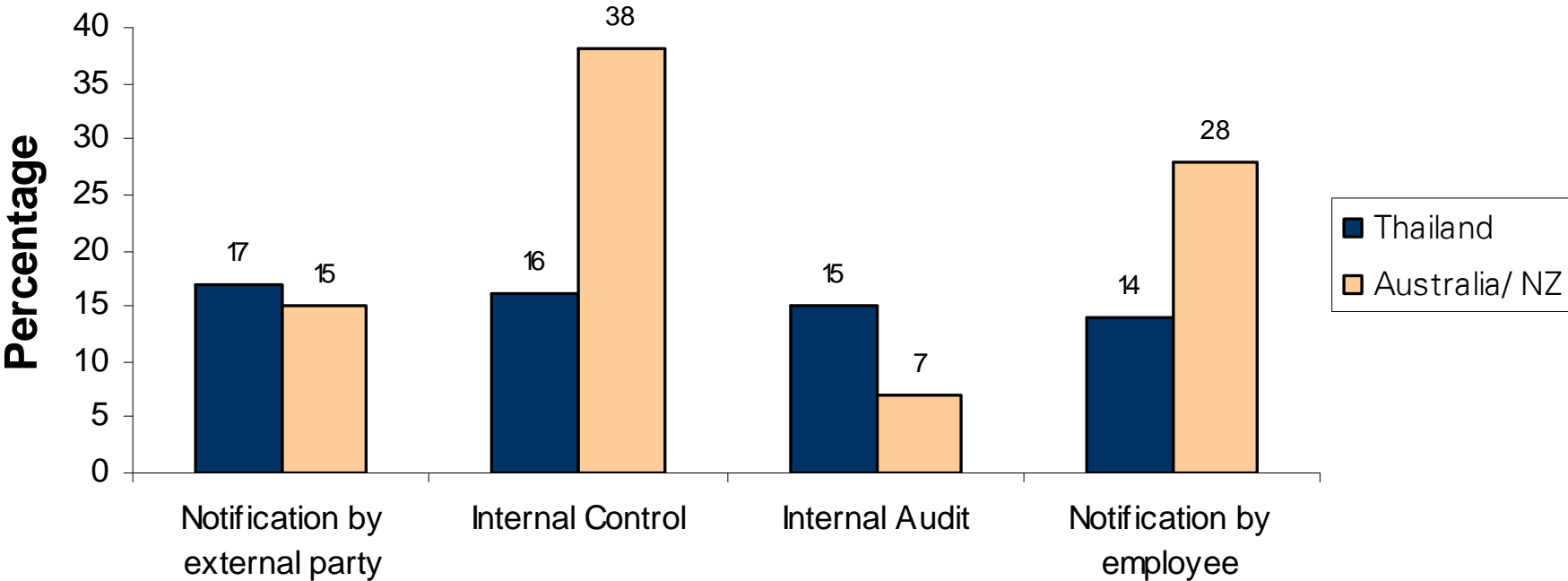
Occupational Fraud in Asia



Sources: Association of Certified Fraud Examiners – 2010 Global Fraud Study

Fraud Survey- Global

Fraud Notification



Sources of Fraud Notification

Sources: KPMG Fraud Survey – Thailand 2007



Potential Impact of Fraud

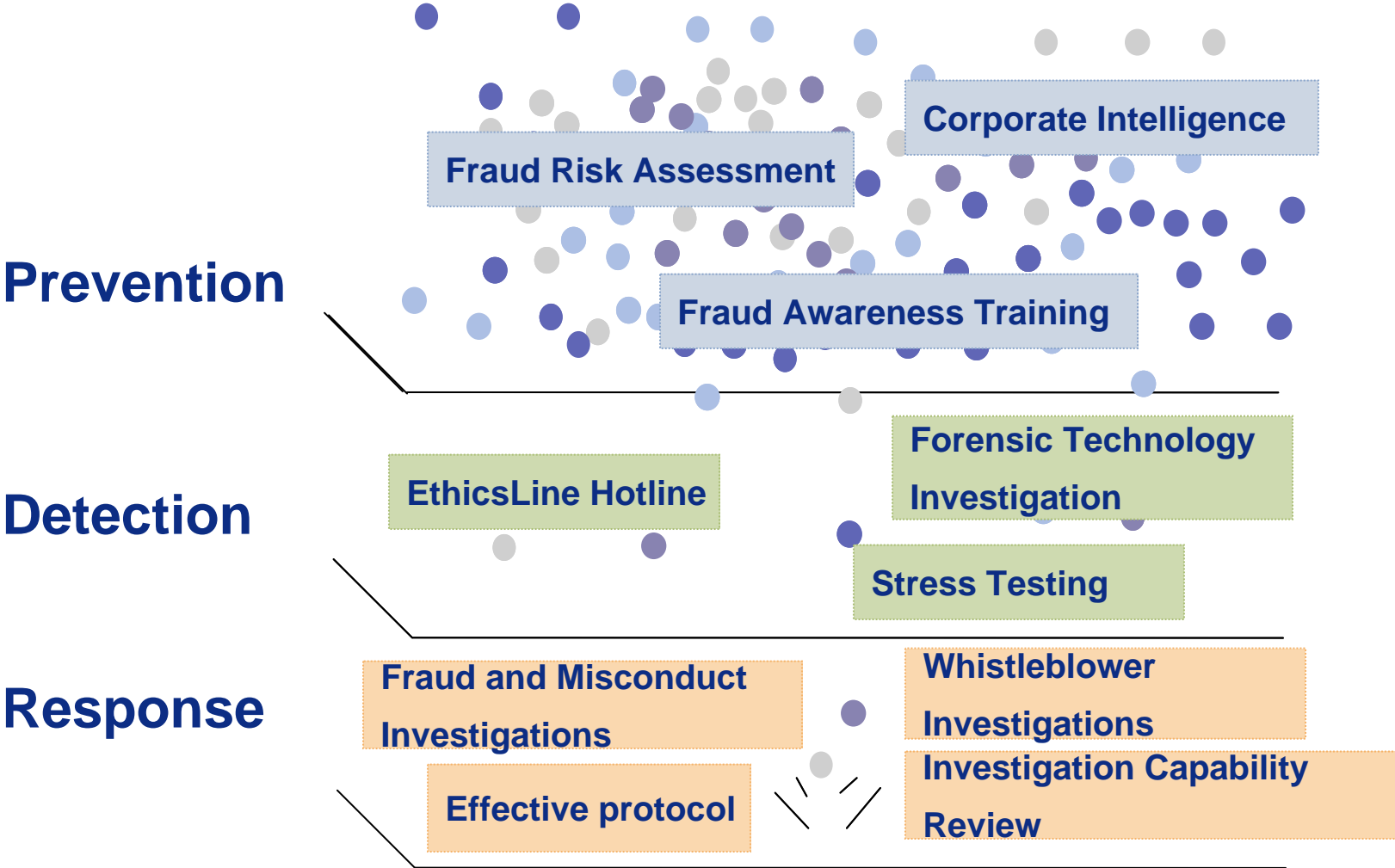
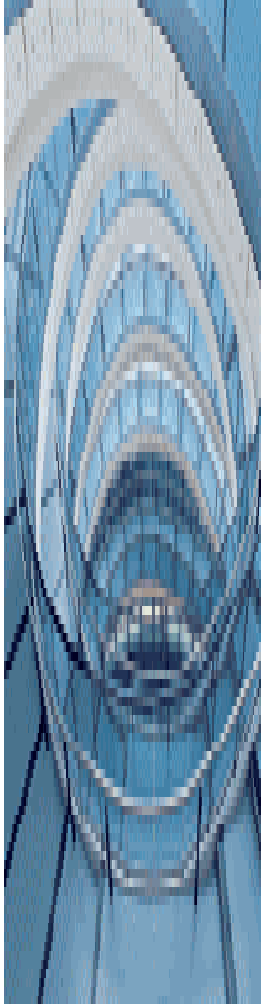
- **Financial loss**
- **Reputation damage**
- **Loss of shareholder value**
- **Potential job losses**
- **Morale damage**
- **Investigation costs**
- **Management time and resources**
- **Credit ratings downgrade**



Roles & Responsibilities of the Audit Committee

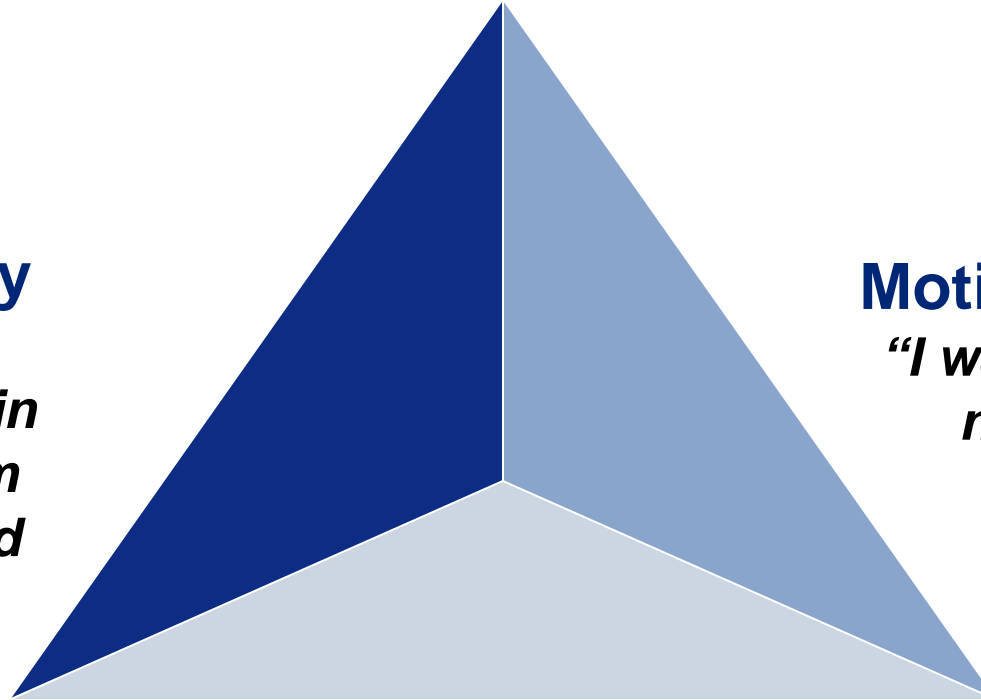


Fraud risk management



The Fraud Triangle

Opportunity
“There is a weakness in the system that I could exploit”



Motive / Incentive
“I want to or have a need to commit fraud”

Rationalisation / Integrity
“I am convinced that it is worth the risks”

Red Flags

Opportunity

- Related party transactions
- A complex business structure
- A highly computerized firm

Motives/ Incentive

- High personal debts or financial losses
- Resentment of superiors and frustration with job
- Excessive gambling

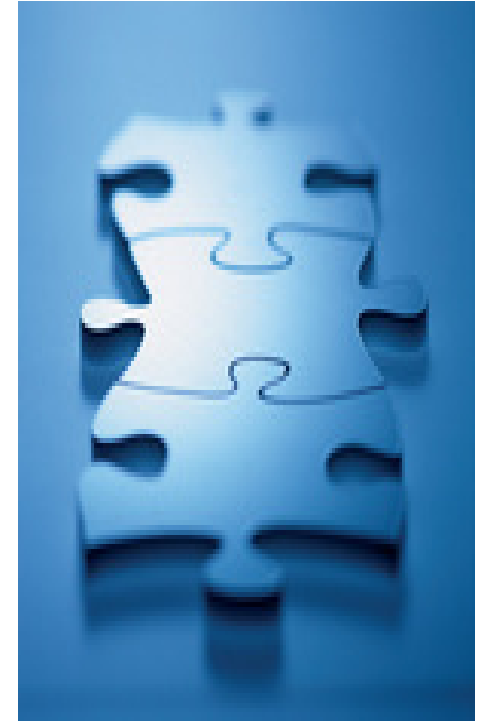
Rationalisation/ Integrity

- A wheeler-dealer personality
- A strong desire to beat the system
- Lack of strong code of personal ethics

Examples of Fraudulent Activities

What KPMG Thailand has seen in the last year

- **Fictitious, inflated and / or duplicate invoices**
- **Fictitious customers**
- **Conflicts of interest**
- **Lapping**
- **False or inflated reimbursement submissions**
- **Ghost employees**
- **Duplicate purchasing and reimbursement scheme**
- **Revenue or expense smoothing**



Case study 1

- A **Managing Director** transferred funds from his company's securities accounts to his personal accounts where he used it to make highly speculative investments for his own gain. He hid his crime by creating false broker account statements.
- Which elements of the fraud triangle may be present?

Opportunity: The MD had been given sole authorization to make such transfers.

Motive: Personal investment ambitions

Rationalisation: May have intended to pay back the principal if his investments paid off

Case study 2

- A **Finance Director** colluded with subcontractors to maintain a smooth gross margin by arranging for inflated invoices from a long-time subcontractor in one reporting period and subsequently issuing credit notes to the subcontractor in the next period.

- Which elements of the fraud triangle may be present?

Opportunity: The Finance Director had a close relationship with the subcontractor

Motive: Financial performance pressure

Rationalization: There was no theft of money

Case study 3

- A **Board Member** used his position to influence a **Procurement Officer** to award a lucrative contract to his friend's business even though the business did not meet the supplier selection requirements.
- Which elements of the fraud triangle may be present?

Opportunity: Inadequate procurement selection controls

Motive: Concern of the Procurement Officer for his job security

Rationalization: The board member is in a position of authority

Appendix

Examples of Fraud and Misconduct Schemes

Area of Analysis	Fraud and Misconduct Schemes
Accounts Payable	Fictitious vendors
	Fictitious, inflated and / or duplicate invoices
	Structured payments
	Conflicts of interest
	Kickbacks
	Bid-rigging
Purchase Cards	Duplicate purchasing and reimbursement schemes
	Unauthorized and / or improper purchases
	Unauthorized users
Accounts Receivable	Lapping
	Credit balance fraud
	Offsets with unauthorized / improper expenses
	Fictitious customers
Inventory	Fictitious, inflated, duplicate or unnecessary purchase
	Theft through improper write-off
	Excessive shrinkage
	Kickbacks and improper or illegal payments

Area of Analysis	Fraud and Misconduct Schemes
Payroll	Ghost employees
	Improper supplemental payments
	Improper bonus or incentive compensation payments
	Inflated salaries
	Inflated hours
Travel & Entertainment Expenses	False or inflated reimbursement submissions
	Improper use of corporate credit card
	Purchases for personal use
	Duplicate purchasing and reimbursement schemes
Sales	False or inflated sales
	Fictitious customers
	Revenue recognition abuses including channel stuffing, liberal return policies and bill and hold schemes
Accruals / Reserves	Unauthorized / improper expenses
	Fictitious or inflated expenses
	Revenue or expense smoothing
Journal Entries	Earnings management
	Improper management override
	Improper expense capitalization

Examples of Fraudulent Activities

What KPMG Thailand has seen in the last year

Some examples:

- An **Accounting staff** submitted copies of the same petty cash expense receipt to two different authorized approvers. She then reimbursed the requestor with one check and pocketed the other.
- An **Accounting Manager** had her MD sign-off on a check which lacked the “A/C Payee Only” stamp. She then deposited the check into her own account, and subsequently placed the stamp on the photocopy of the check that went into the payment supporting documents.
- A **Procurement officer** opened a supply company in his wife’s name and subsequently started hiring them as the sole supplier of certain equipment, despite the questionable qualifications of the supplier.
- A **Finance Director** colluded with subcontractors to maintain a stable gross margin by arranging for inflated invoices from subcontractors in one reporting period and subsequently issuing credit notes.
- A **Finance Manager** got his MD, a foreigner, to sign off on a Thai document allowing him authority to set up a bank transfer token card to wire money to himself. He then wired a series of payments.
- A **Division Manager** ordered high quality materials from a supplier, but accepted low quality materials which were worth less in order to get a kickback.
- An **HR Director** failed to delete a former employee from the company’s payroll system. Instead she changed the bank account for the salary payments to be her own.
- A **CFO** issued checks to himself and concealed the transaction from the auditors by falsifying the company’s bank statement to make it look like the withdrawal had never occurred.

Examples of Fraudulent Activities

What KPMG Thailand has seen in the last year

Some common themes:

- Many occurrences of fraud were small, but recurring over a long period of time
- Small companies or small subsidiaries of global companies with a limited number of people in the accounting/procurement divisions
- In many cases several people in the authorization process colluded
- Senior Management failed to monitor what their staff was doing
- Accounting/procurement policies were not strictly followed
- Many of the perpetrators had been in their positions a long time and knew where the weaknesses in controls lay
- Companies that make a lot of cash transactions are particularly vulnerable
- Cases of fraud can occur at all levels of the organization

Disclaimer

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