

Fraud & Corruption Conference Bordeaux - 8 June 2012



EUROPEAN
ORGANIZATION
OF REGIONAL
AUDIT INSTITUTIONS



Introduction

Stephen Taylor
Director of Audit
Audit Commission
England





Eurorai Working Group - Background

Eurorai's objectives include:

- To foster and promote co-ordination ...
- To promote exchanges of knowledge and experience
- To promote studies relating to audit



Eurorai Working Group - Background

Agreed at General Assembly – London
October 2010:

- Use experience/knowledge of Eurorai network
- Add value to audit and auditors
- Promote consistence in practice
- Make a difference

Eurorai Working Group - Subject Criteria

Work should be:

- Wide interest
- Not too technical
- In a small group
- Single language
- Practical output with recommendations



Subject Selection

Salzburg – March 2011

Fraud Audit

- Topical
- Relevant to all
- Variations in practice
- Practical opportunities for improvement and consistency



Specification agreed

1. Clear scope and objectives
2. Approach:
 - data collection
 - analysis and comparison
3. Report findings
4. Recommendations
5. Present findings at conference



Working Group



Working Group





The Subject

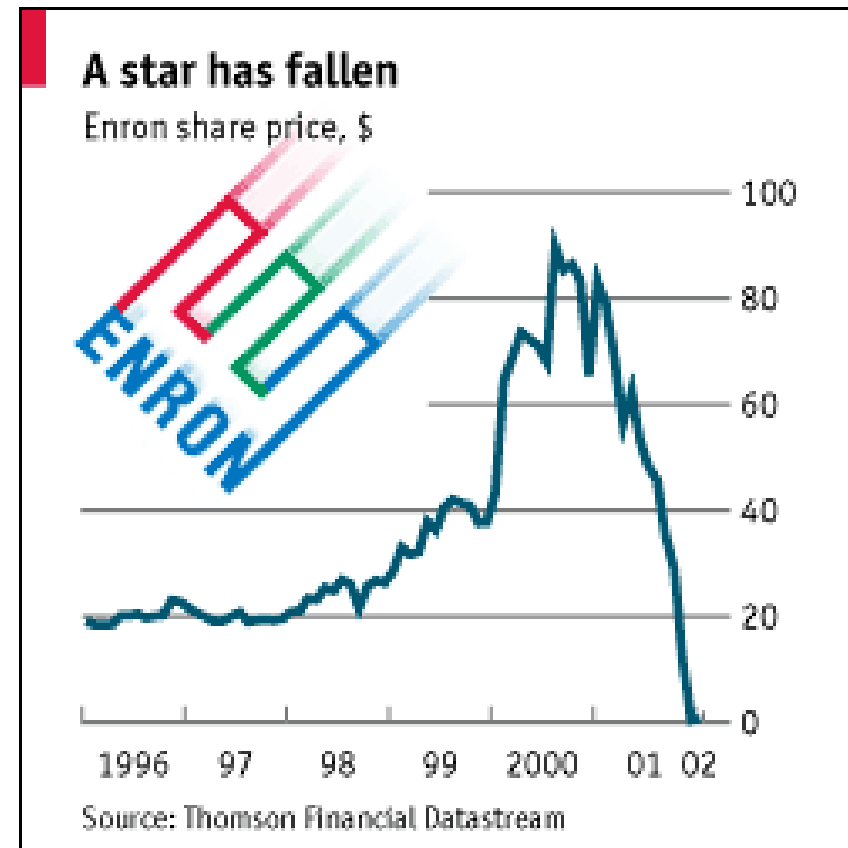
- Why is fraud important?
- How we did the work

Alan Bryce
Head of Counter Fraud
Audit Commission
England

Why is fraud important

Headline stories from across the globe:

- WorldCom
- Parmalat
- Enron
- Madoff
- Eurostat





Just a few examples - England

- Over 8 million Euros of “change of bank details” fraud detected by local government in last 12 months
- One small council lost over 500,000 Euros
- To close library, making 30 additional staff redundant
- Largest single fraud attempted – 6 million Euros

Scotland – corporate credit card abuse

- Over 115,000 Euros
- Failed to carry out monthly bank reconciliations
- Identified by routine audit checks
- Over 550,000 Euros over 4 years
- 2 years sentence
- Payments to company owned by fraudster
- Found during checks of financial systems



Austria –conflict of interest

- Building permit granted, but risk of landslide great
- Houses damaged, hillside restructured, cost – 1 million Euros
- Mayor, real estate agent for properties
- Conflict of interest could have been avoided



Stopping fraud

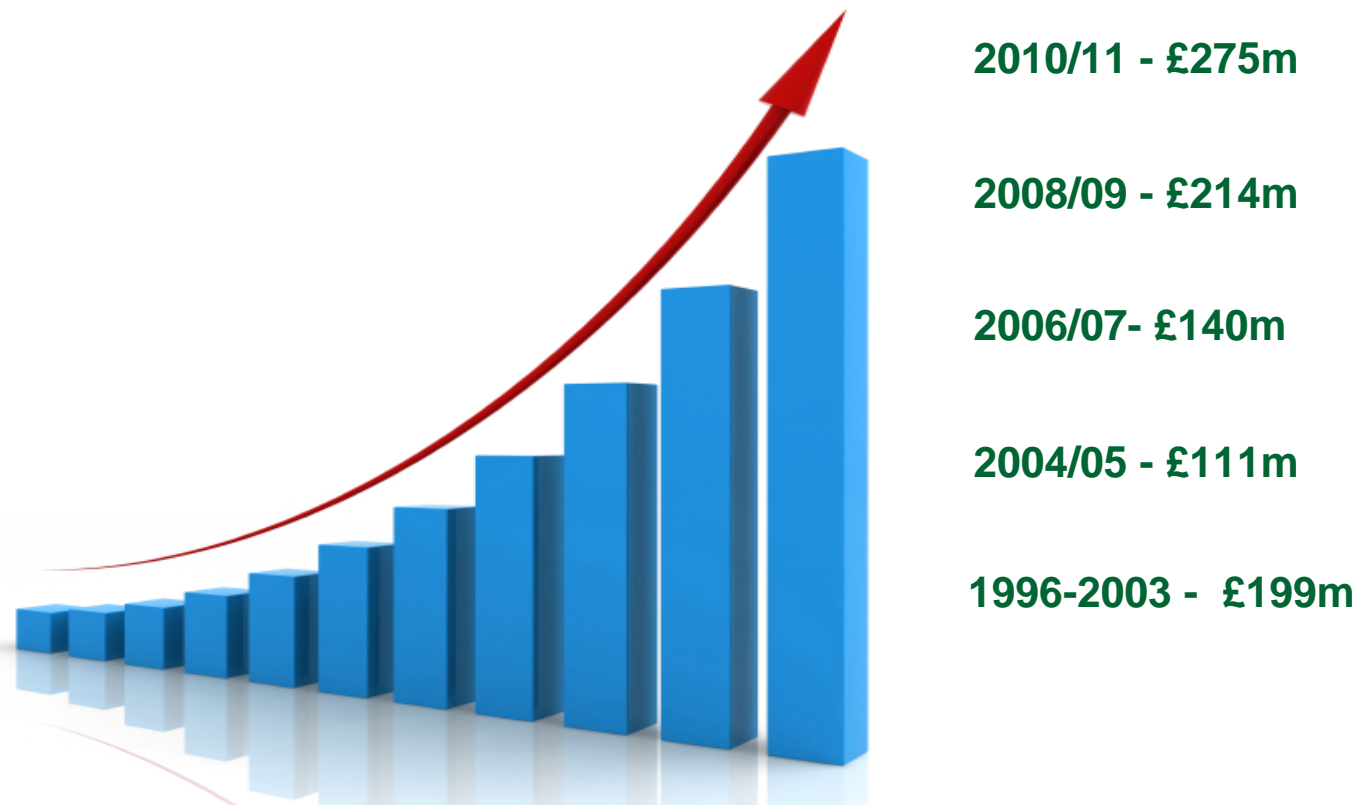
- Protects frontline jobs and services
- Protects the taxpayers money
- Avoids reputational damage
- Potential source of financial savings
- Morally the right thing to do



What can be saved

- In UK, total public, private, charity and individual fraud estimated to cost over 85 billion Euros each year
- Equal to over 450 Euros for every adult in UK
- 2.5 billion Euros in just local government

What can be achieved – Audit Commission data matching activity, over 1 billion Euros of fraud and error identified since 1996





How we did the work

- Initial team meeting, London 2012
- Identify risk, share good practice, analyse data and information
- Develop report structure
- Each team member leads on developing at least one section
- Virtual, on-line, team working – sharing and collaboration



Fraud definition and accountability

Birgit Fuchshuber
Member
Court of Audit – Upper
Austria



Definition of Fraud – an example

- deliberately falsifying, substituting or destroying records for personal gain
- intentional breaches of financial regulations and procedures
- abuse of position as employee to benefit friends, family or others
- use of deception with the intention of obtaining an advantage or causing loss to another party
- theft of funds or assets from the local authority or its partners



Definition of Fraud - key elements

- adopting a civil, rather than criminal only, basis for definition
- reference to some form of abuse of position, false representation and failure to disclose information within the definition
- an intention to make some form of gain or cause loss



Accountabilities of audited entities

Minimum standard that the auditor expects to see in the audited body to prevent and detect fraud:

- a Code of Conduct and training to support this
- an anti fraud strategy
- understanding of risks using 'Red Flags'
- use of special internal audit programmes, and
- an adequate Internal Control System.



Code of Conduct (1/3)

A Code of Conduct contains rules of behaviour for all employees which reflect the norms and values of the organisation.

→ An adequate Code of Conduct should be implemented and also lived in the audited body.



Code of Conduct (2/3)

In order to be effective a Code of Conduct

- must be communicated to all employees – with regular training to strengthen acceptance and improve abilities
- must apply to every employee in the organization, both management and staff,
- must sanction non-compliance, and
- must include the nomination of a compliance officer.



Typical issues in a public body Code of Conduct (3/3)

- Standards expected in public life
- Political neutrality of staff
- Information security – confidentiality
- Relationships – appropriate manner
- Personal interests – beware of conflicts
- Gifts and Hospitality
- Whistle-blowing



Anti Fraud Strategy

An Anti-fraud strategy in a public body should contain detailed anti-fraud arrangements, such as:

- fraud definition,
- responsibilities – segregation of duties
- risk identification
- statement on culture and expected standards
- action plan concerning the risk of fraud, and
- monitoring.



Red Flag Risks

Red Flags need to be communicated to staff
→ to increase their awareness of potential fraudulent activity in the organisation.

Examples for Red Flags:

- employees who live beyond their means
- changes in employee's behaviour
- employee's work style: e.g. lone worker



Internal Audit Programmes

Audited bodies should regularly use special audit programmes

→ to detect irregularities in the organisation which subsequently need to be investigated further.



Internal Control System

In order to be able to prevent and detect fraud the Internal Control System and its controls

- need to be adapted to cover the risk of fraud and
- need to be applied. The mere existence of controls is not enough.



Accountabilities of the auditors

The auditor must

- be completely independent
- be free from any personal interest in the audit engagement
- plan audit work with a reasonable chance of detecting fraud
- be open-minded and sceptical in undertaking the audit
- regularly attend training to improve skills, and
- seek professional support if needed.



Survey results and examples

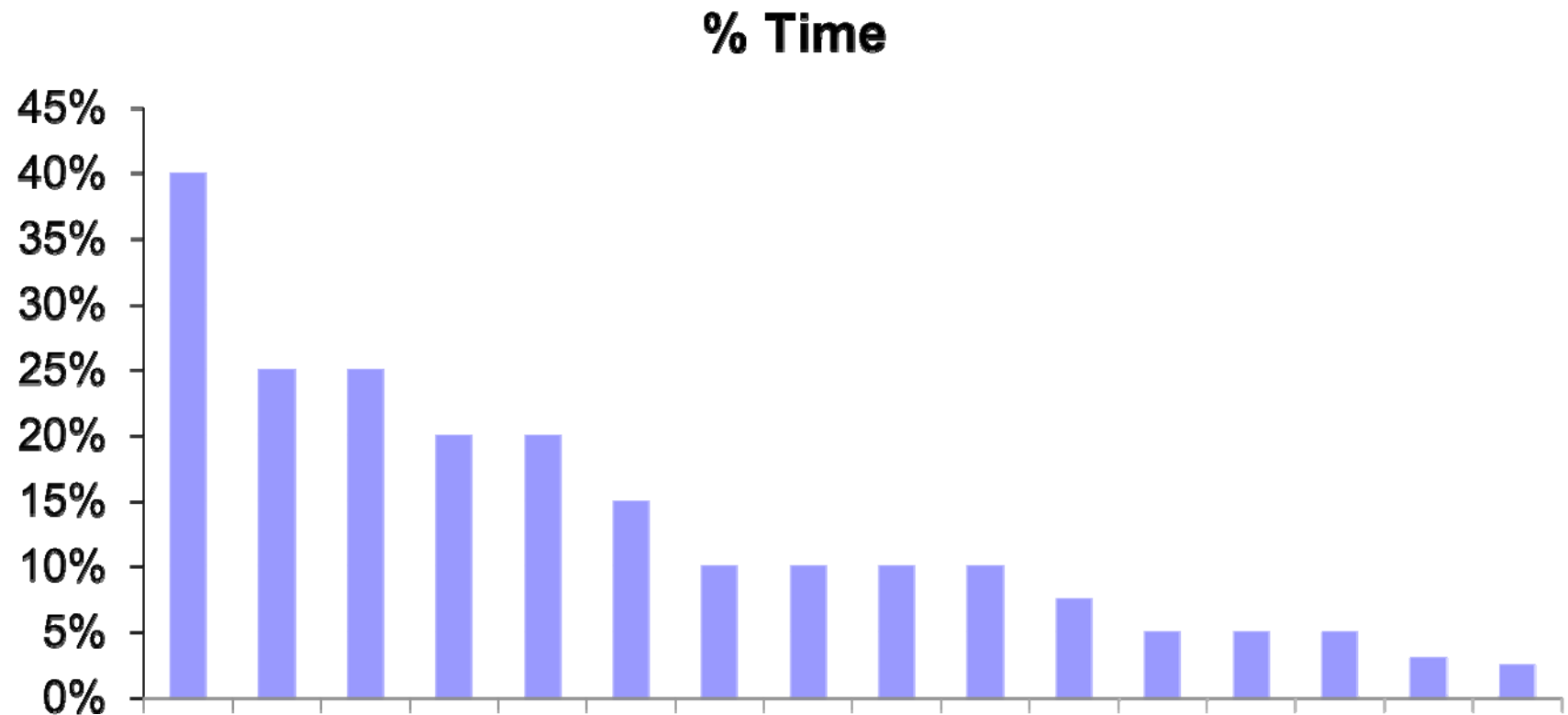
John Gilchrist
Manager – Audit Strategy
Audit Scotland



Survey highlights

- 90% conduct annual fraud assessment
- 85% integrate fraud into other audit work
- 50% report specifically on fraud
- 93% report in public & to parliament
- 73% report to the local organisation

Time on anti fraud audit work



Audit Techniques



Discussion with
Management



Review of plan
and strategies

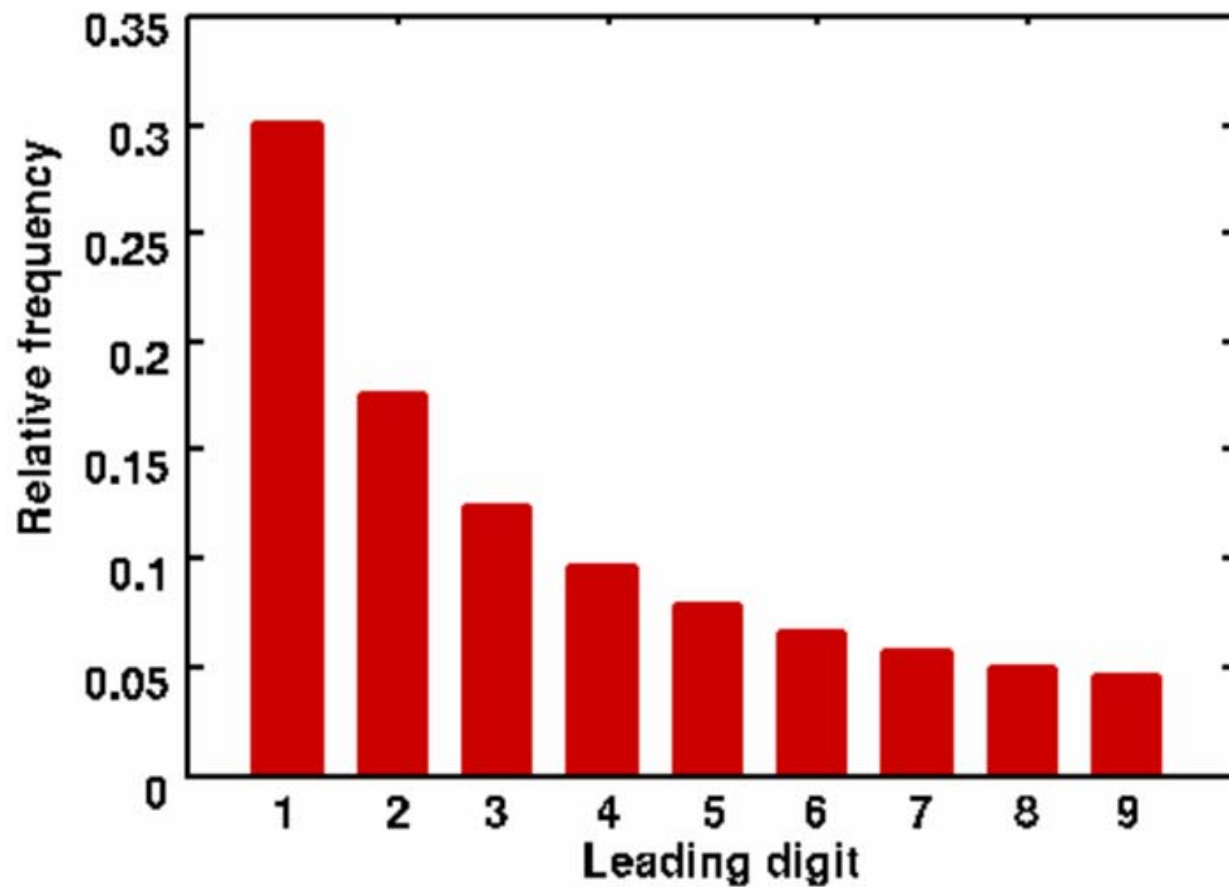
Data Matching



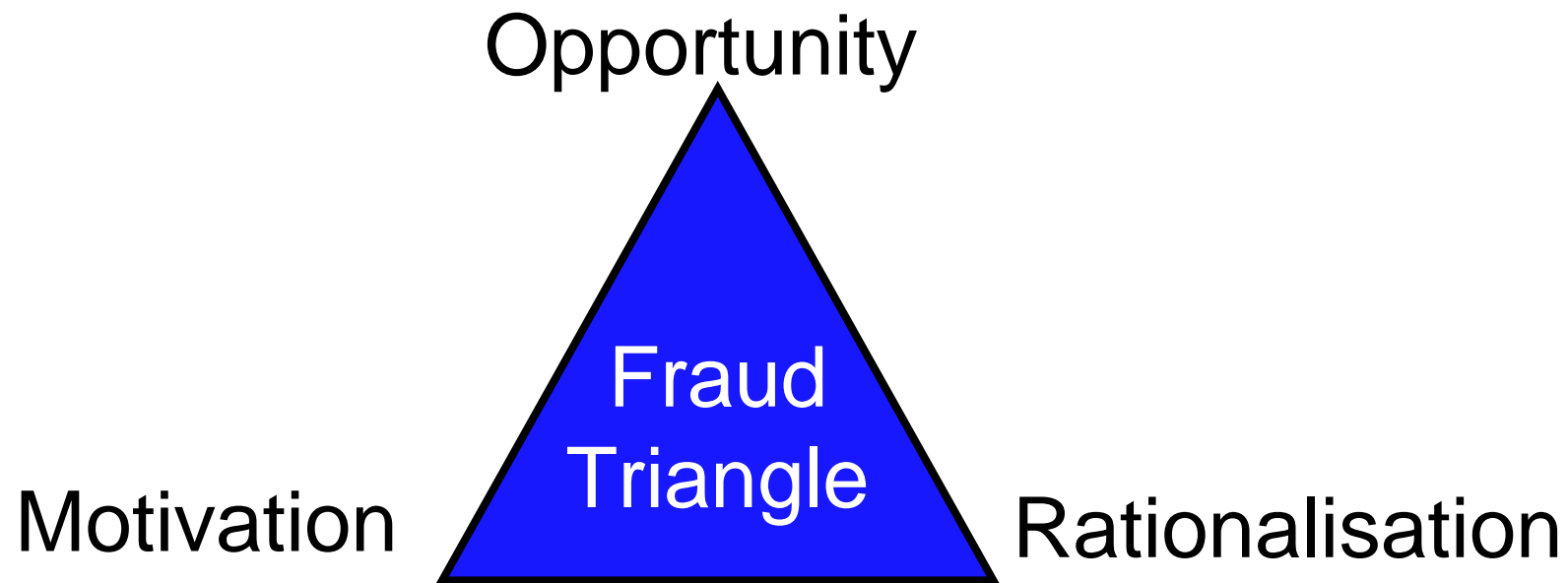
Thematic
reviews



Example: Benford's Law



Example: Fraud Triangle



Even the best systems of internal control cannot provide absolute safeguards against irregular activity



Example: other

- Enquiries of Management
- Organisational culture
- Data matching
- Reporting
- Sharing fraud risks



Findings and Recommendations

Michel Carles
Government Commissioner
Regional Audit Chamber
of Midi-Pyrenees





Recommendation – Training & Skills

- Ensure auditors have the relevant skills for auditing potential fraud
- Regular training sessions – include other agencies eg: Magistrates/Police

Recommendation – Audit Methodology

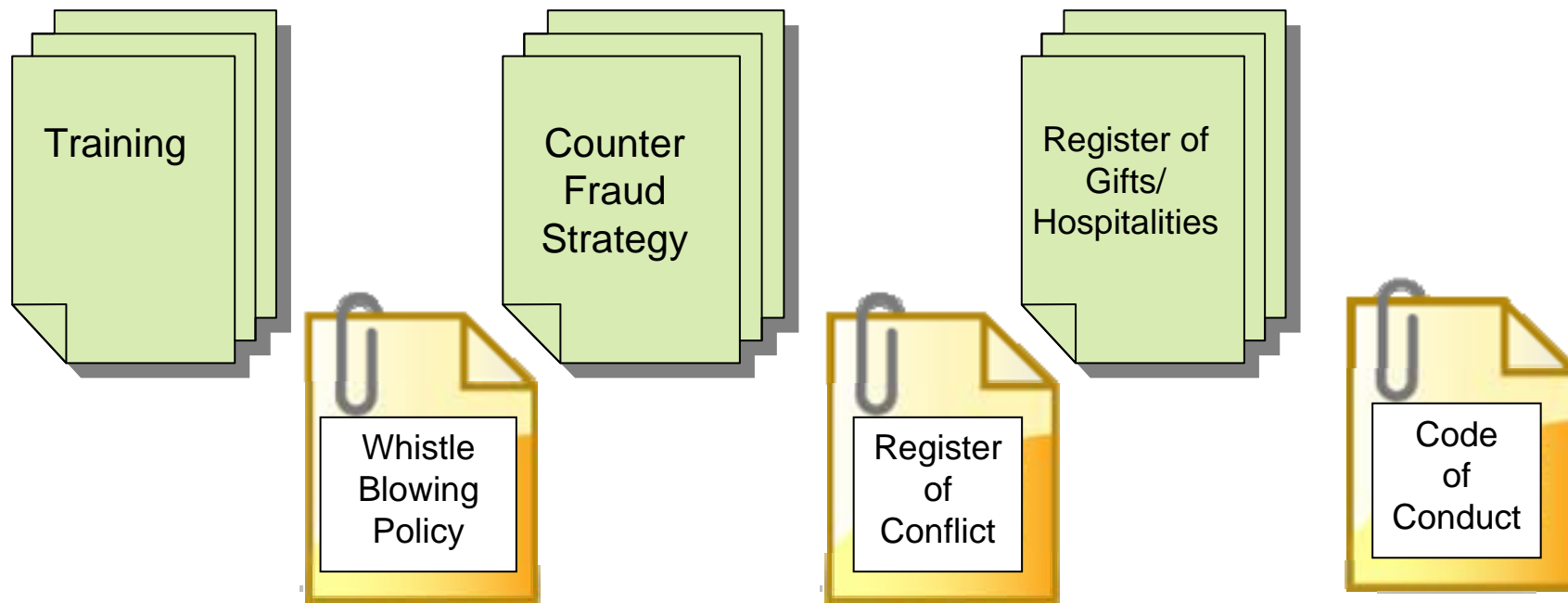
For each audit – understand the organisation

- Risky positions
- Risky procedures
- Lack of transparency
- Monopoly in decision making
- Risky procurement
- Potential for petty corruption



Recommendations to Audited Bodies

Minimum package of measures





Other Recommendations for Audited Bodies

- Prepare a code of ethics
 - Enforce the 'rules'
- Periodically review the framework and culture
- Rotate staff in sensitive decision making areas
- Monitor procurement procedures/risks

Recommendations – Auditors & Reporting

- Prepare an annual report including fraud matters
- Share good practices) via **EURORAI**
- Share cases)





Recommendations – Action by Auditors

Fraud in public life is serious, so:

- Use available powers to punish breaches/irregularities through courts
- Ensure skills and qualifications in organisation to do this

Questions and Answers

