

Utilising digital forensic accounting resources to navigate fraud risk

Synopsis

The current COVID-19 pandemic has created a level of uncertainty possibly never before seen by a significant portion of the population. What appears certain is that our way of socialising and conducting business going forward will be changed by the pandemic, shaped by both the current discomforts and the opportunities currently presented by the pandemic. Those charged with governance are required to ensure the sustainability of their organisations, and agility during times such as we are in now is essential. This agility requires, inter alia, that controls – particularly anti-fraud controls - keep pace with the changes and be tailored to the organisation's needs. One of the means that may be employed in is an automated continuous monitoring system.

The system may be configured to monitor key process (such as payments, payroll, procurement, etc.) to raise red flags and inform the relevant official when certain conditions or combinations thereof are triggered. Examples of these include:

- Payments made outside of normal operating hours.
 - Multiple payments of below a particular amount to the same recipient over a short period, which may be indicative of someone seeking to circumvent payment thresholds.
 - Payments to bank accounts not associated with vendors registered on the organisation's vendor database. This may be indicative of payments being fraudulently rechannelled.
 - Non-salary-related payments made to bank accounts linked to employees, which may also be indicative of fraudulent rechanneling of payments.
 - Cumulative payments by the organisation to vendors which exceed the value of the respective purchase orders.
- The system may also be used in trend analysis: certain trends that become apparent when the application runs its processes may be followed up on by the relevant official to determine whether there is anything untoward. Examples of trends that may be picked up by the monitoring application are:
 - High incidence of credit notes in favour of customers/clients, which may be indicative of revenue recognition fraud, or instances of the credited funds making their way to fraudulent bank accounts.
 - For those organisations that utilise vendor rotation, a comparative trend indicating how much business (quantity and monetary value) has been given to specific vendors over a particular period, which trend can then be tested against the organisation's policies.
 - Other financial reporting matters that would not be easily spotted without a centralised analytical tool. An example would be fund utilisation per project or project budget line by implementing partners working with donor agencies, where reasonableness of activities (e.g. persons tested, persons fed, workshops held, etc.) can be assessed through analysis of trends.

Detail

One of the most visible effects of the lockdown brought on by the COVID-19 pandemic is that businesses have had to shut down their physical, brick-and-mortar offices, with employees now having to work from home, connecting remotely via various electronic means. This arrangement is not without its set of challenges, a few examples of which are as follows:

- Payment processes have been affected. Where two or three persons in the payment chain used to physically collaborate with each other in, for example, conducting three-way matches or casting a critical eye on physical documents, this has been rendered impracticable due to the lockdown and dispersion of staff.
- The receipt of physical bid documents: with bidders' movement restricted and, in any case, no one to receive and open the bids at the business premises, this type of procurement process has been placed on hold.
- Financial reporting processes have been affected. Some organisations, especially in the donor-funded sector, require that their implementing partners submit physical documents (e.g. receipts, invoices, bank statements, signed attendance registers, etc.) to the organisation's regional office, which documents will be used in verifying the implementing partners' periodic financial reports.
- These documents cannot be physically moved during the lockdown period, and some implementing partners, particularly in remote, less-developed areas, will have challenges accessing scanning facilities for bulkier documents.

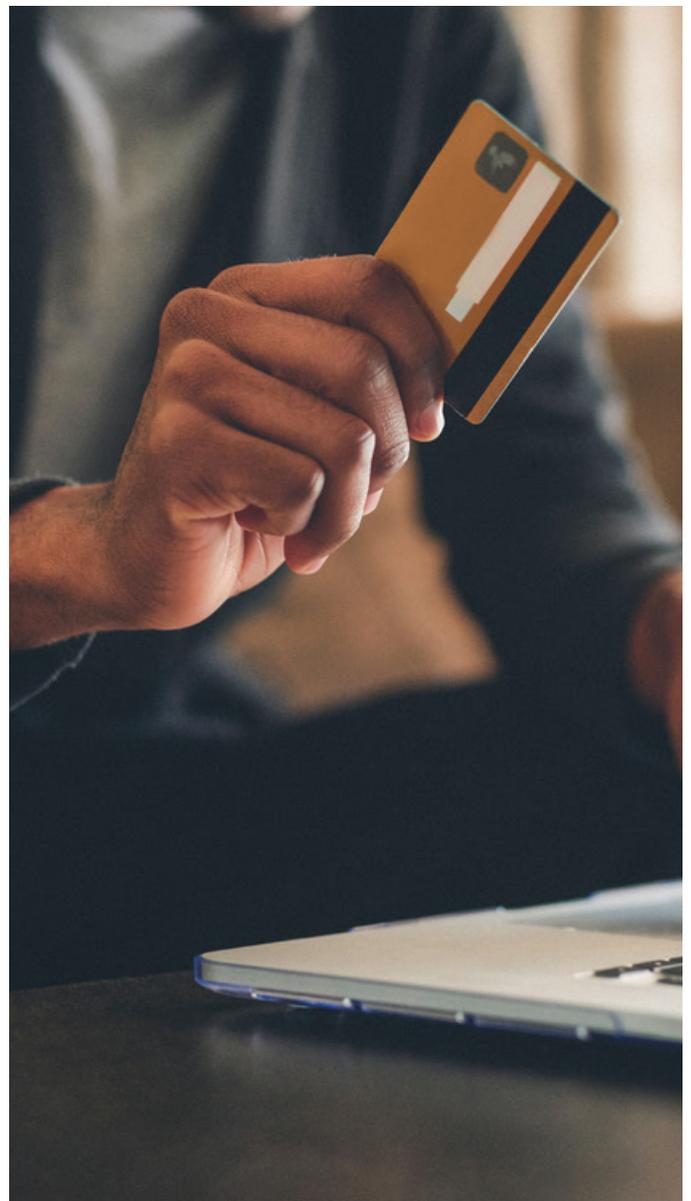
Whereas some businesses already have established electronic systems, such as: electronic bid submission portals, electronic invoice submission portals and financial reporting portals, this is not so for many businesses. The need for trading to continue during this period and beyond will therefore see organisations adopt varying levels of electronic submission processes. This could range from accepting emailed documents to sharing documents via document storage sites to implementing submission portal infrastructure. Each of these methods presents a set of cybersecurity risks (to be discussed in a separate piece on cybersecurity). Given that these methods will present a relatively new way of doing business for a lot of organisations, the organisations therefore need to promptly implement commensurate anti-fraud controls. An example is anti-fraud automated continuous monitoring, which we discuss below.

Automated continuous monitoring of key processes: red flags

One of these methods is utilising an automated continuous monitoring application on key processes, such as payments. The monitoring application may be configured to raise red flags and inform the relevant official when certain conditions or combinations thereof are triggered.

Examples of these are:

- Payments made outside of normal operating hours.
- Multiple payments of below a particular amount to the same recipient over a short period, which may be indicative of someone seeking to circumvent payment thresholds.
- Payments to bank accounts not associated with vendors registered on the organisation's vendor database. This may be indicative of payments being fraudulently rechannelled.
- Non-salary-related payments made to bank accounts linked to employees, which may also be indicative of fraudulent rechanneling of payments.
- Cumulative payments by the organisation to vendors which exceed the value of the respective purchase orders.





Automated continuous monitoring: trend analysis

Another way in which the monitoring application may be utilised is in trend analysis. For example, certain trends that become apparent when the application runs its processes may be followed up on by the relevant official to determine whether there is anything untoward. Without a centralised analytical tool or process, it becomes difficult for an organisation's official(s) to see patterns emerging. Examples of trends that may be picked up by the monitoring application are:

- High incidence of credit notes in favour of customers/clients, which may be indicative of revenue recognition fraud, or instances of the credited funds making their way to fraudulent bank accounts.
- A trend relating to bid submission times of certain bidders, coupled with an analysis of whether they win the bids. An investigation during which a particular set of bidders consistently won tenders each time they submitted their bids last revealed collusive practices between the bidders and the organisation's procurement official.
- For those organisations that utilise vendor rotation, a comparative trend indicating how much business (quantity and monetary value) has been given to specific vendors over a particular period.
- Trend analysis may also be used for verification of certain accounts. For example, a donor funded institution expects its implementing partner to utilise funds only for approved projects and within approved budgets.

This institution could use the analysis to pick out inconsistent spending of funds on administration- or project-related spending. In a forensic investigation that was done a while ago, we identified an implementing partner that was involved in a programme for the feeding and education of disadvantaged children in a rural area.

The partner's financial reports were within budget month after month for every budget line and so the donor institution's project finance officer saw no need to pay further attention to the financial reports.

However, when we performed a granular analysis of the reported spend per line, unusual trends were identified, such as:

- Every child on the programme supposedly obtaining five litres of cooking oil every month (regardless of household size);
- Every child supposedly obtaining one ruler, two pencils and two erasers every month during the year. What very busy pupils the children must have been! Needless to say, we identified improper use of funds by the implementing partner.
- Unusually high numbers of patients consulting a medical practitioner in a day. In another investigation, we found several medical practitioners who were submitting false medical aid claims for supposedly seeing an inordinate number of patients per working day.



In conclusion, the current COVID-19 pandemic has created a level of uncertainty possibly never before seen by a significant portion of the population. What appears certain is that our way of socialising and conducting business going forward will be changed by the pandemic, shaped by both the current discomforts and the opportunities currently presented by the pandemic. Those charged with governance are required to ensure the sustainability of their organisations, and agility during times such as we are in now is essential. This agility requires, inter alia, that controls keep pace with the changes and be tailored to the organisation's needs. As SNG Grant Thornton, we are well-suited to be your organisation's partner in building and enforcing robust anti-fraud controls.





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