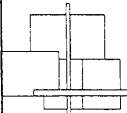


MODUL 6

FROD TERKhusus DAN PERAKAUNAN FORENSIK

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Occupational Fraud vs Abuse

Occupational Fraud

- the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization organization's resources or assets (Wells, 2004)

Also known as internal fraud, fraud committed by an employee directly against the organization he/she works (employee fraud – element of deception)

Can be divided into:

- Corruption
- Asset misappropriation
- Fraudulent Statement (Appendix 1)

What is abuse?

Latin word *abusus* – to consume – means deceitful act

However often used to describe petty crimes, become common and silently condone in the workplace

■ Examples of abuse

- take products belonging to org
- take a long lunch or break
- come to work late or leave early
- use sick leave when not sick
- do slow or sloppy work

So, abuse is not fraud?

■ Illustration

An employee stole RM100 from an org –
fraud.....

An employee earns RM2500 per month
working 25 days, use false MC one day,
exact same economic impact to org....

IS THIS FRAUD OR ABUSE



Few terms in fraud:

Conflict of interest

Bribery

Larceny / Embezzlement

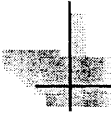
Skimming

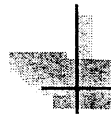
Pilferage



Causes of occupational fraud

- a. Situational pressure
individuals – personal debts
- b. Opportunities to commit
lack internal controls
- c. Personal integrity
honest or dishonest

- 
- Jeffords et al (1992), 63% of 910 cases classified under internal control risk
 - lack of regular checks
 - inadequate org control methods
 - inadequate methods of communicating or enforcing assignment of authority & responsibility
 - unauthorized access and physical control of assets, records or data

- 
- Earnst & Young Int Fraud Network survey in 1996,

60% acknowledged that internal controls were not keeping pace with growth of companies


Over $\frac{3}{4}$ of fraud detected was committed by employees

- Albrecht (1996), employee fraud mainly due to internal control symptoms which include a poor control environment, lack of segregation of duties, lack of physical safeguards, lack of independent checks, lack of authorization, lack of proper documents and records, the overriding of existing controls and an inadequate accounting system.

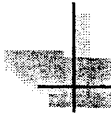
- Management can reduce fraud-handling difficulties by establishing the policy and related approaches to handling fraud before the fact, not after (Thompson, 1991)

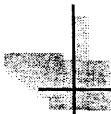
"PREVENTION BETTER THAN CURE"

Fraud is not easy to detect, CONCEALED!

- 
- One of the most effective ways of deterring dishonest conduct is by not hiring dishonest employees (Sawyer, 1988)

BUT, HOW?

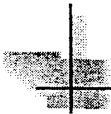
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- Kroll Associates Inc (1993) a business fraud detective agency, list the following behavior & events as early signs of trouble:
 - Extravagant purchases or lifestyles
 - Suggestions of heavy personal debts
 - Unusually close ties to vendors or a sudden switch in long term vendors
 - Reluctant to take vacations or be away from office

- 
- A desire to control operations and safeguard assets: a disregard for segregation of duties
 - Significant changes in behavior
 - Chronic job frustration



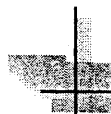
Rationalization for fraud:

1. I'm only borrowing until I get a raise
2. No one will get hurt, the organization has budgeted for this
3. Everybody does it – very bad environment



Control Environment – actions, policies,
and procedures that reflect
management attitude toward FRAUD

Fraud control is everybody's
responsibility!



How to be a good fraud detector?

Think like a fraudster

Assume that not everyone is honest

Involve program employees

- some fraud are detected due to tip from employee
- Higher management fraud more serious



CONCLUSIONS

Fraud cause billions of ringgits of loss to government, not easy to detect so fraud prevention is pertinent.....

Occupational Fraud and Abuse

