



Fraud Awareness Newsletter – March 2008

**MISSION
STATEMENT:**

Exactech provides a comprehensive fraud prevention & detection service including proactive & reactive computer forensics. Our mission is to supply added value to clients at a reasonable cost. We also believe that 'knowledge is power', especially in the fight against fraud, so will share relevant information via this newsletter.

Who is Exactech Fraud Prevention Solutions?

Exactech was founded by Antonio Poee & Mario Fazekas in January 2008 and we have an association with various like-minded companies so that we are able to offer a total anti-fraud service. (We don't have the high overheads of staff salaries & co-source where needed so as to keep our costs reasonable).

Our mission is to help organisations improve their fraud resistance & to make a positive contribution in business ethics at our clients and society in general.

We have developed advanced sets of tools & techniques to assist our clients in:

- ⦿ raising awareness through customized training,
- ⦿ the early detection of the red flags of fraud and corruption and early detection of major incidents using CCM (Continuous Controls Monitoring) or automating the data analytics function,
- ⦿ conducting fraud and corruption investigations, in terms of cyber forensics.

Our clients include multinational corporations, medium-sized companies and government departments. We also work

Welcome to the 1st issue of the Exactech Fraud Awareness Newsletter!

There is no denying the fact that fraud is a growing problem. In the 2007 PWC Global Economic Crime Survey, South Africa was found to have the worst white-collar crime rate in the world.

A similar study conducted by the Association of Certified Fraud Examiners (ACFE) in 2006 found that the typical organization loses 5% of its annual revenue to fraud. The study also found that once victimized, an organization was unlikely to ever recover the losses.

Based on an analysis of twenty years of data available from KPMG's Fraud Barometer, an economic slowdown in 2008 as the result of the credit crunch could result in a rise in the emergence of high value corporate frauds.

All this points to the fact that organisations cannot afford to ignore the risk of fraud and should be implementing fraud prevention strategies as a matter of urgency. Fraud prevention isn't difficult. Yet, a number of once prominent companies failed to follow even the basics and faced the consequences. Enron, WorldCom, and, here in South Africa, Leisurenet, MacMed, & Beige are but a few of many highly publicized corporate frauds of the last few years. The financial & reputational risks from fraud are considerable and this newsletter will provide relevant, topical articles to help you in building a robust fraud prevention program. ■

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And you thought this only happened in South Africa!

Two men wheeled a dead man through the streets of Manhattan, New York, in an office chair to a store & tried to cash his \$300,00 Social Security cheque before being arrested on fraud charges.

- Jan 08 2008

with industry associations, such as the ACFE & IIA, and other specialists to research new practical ways by which organisations can increase their resistance to fraud and corruption.

Why Fraud Prevention?

Organizations are implementing tighter controls and the auditing profession has adopted more rigorous auditing standards and procedures, but it seems that these efforts are not sufficient to mitigate the fraud problem. One of the reasons for this is that many accountants and auditors think that 'internal controls' and 'fraud prevention' is the same thing yet this is not the case. Organisations with controls still have fraud - they therefore need to know more about 'fraud prevention' and should be thinking in terms of 'detering' fraud. Deterrence is the combined effort of preventative, detective, investigative & corrective measures that work together to mitigate fraud. **According to the ACFE, however, Prevention is 80% of the solution.**

Prevention and deterrence is therefore the approach we focus for our clients and we have based our service offerings on a very successful holistic strategy employed by one of the GE business units, namely the Fraud Deterrence Lifecycle. **This strategy enabled GE to show ROIs of up to 30%! ■**

\$7 Billion Fraud - too many days on the job...

Have you been reading about the low level trader that committed a \$7 Billion fraud at his French bank - more than the bank's equity!

The French bank said, in a **Wall Street Journal** article, that it tried on several occasions to make Mr. Kerviel take a few weeks off, but that it ultimately went along with his excuses for staying at work. If he had been gone, his frauds most probably would have been spotted.

Many organisations have a preventative internal control that requires all staff to take a holiday for at least 5 workdays in a row, & often 10. This isn't an effort to undercut the work ethic. **It's just hard to keep a fraud going when the day-to-day management of a function is being handled by someone else.**

Many bosses are lax about this control yet there is already a precedent that should have provided ample warning -- that of the Daiwa Bank bond trader who had losses of \$1.1 billion in 1995 - and he didn't take an extended break for more than ten years! We have always said that the most effective fraud protection tends to be the simplest. If the banks would have forced these traders to take mandatory vacations they probably wouldn't have been able to cover their tracks and cause such huge losses.

After reading this article you should now be rushing off to adjust your audit programs and controls in order to ensure that mandatory vacations are being taken by your staff! ■

"Now is the time for corporations to fix fraud and controls weaknesses. Nearly all financial executives (90%) report a cultural change among U.S. business leaders toward institutional integrity and fraud prevention as a result of the recent fraud scandals.

Today, continuous monitoring is a mature process that allows companies to automate controls testing and get real-time visibility into their financials. Smart compliance officers and corporate executives are adopting these processes and technology."
 - 2007 Oversight Systems Executive Report on Sarbanes Oxley

Executives today are more challenged than ever to make quick, well-informed decisions that address increasing business complexity and regulatory requirements. Close examination of the business transactions underlying financial reporting is needed to uncover unforeseen risks, potential control breaches, and opportunities for operational improvements. **Continuous Controls Monitoring (CCM)** provides this critical insight. Built on powerful ACL technology, CCM solutions extend best practices in controls compliance and transactional analysis into core business processes.

CONTINUOUS CONTROLS MONITORING

CCM solutions provide an independent control review mechanism to help organizations assure the effectiveness of internal controls, reduce operational risks, minimize profit erosion, and mitigate the risk of fraud, while meeting increasing regulatory requirements. CCM controls tests have been designed to support the COSO (Committee of Sponsoring Organizations) Enterprise Risk Management Framework, recognized as the standard for enabling compliance with Section 404 of the Sarbanes-Oxley Act.

CCM solutions identify errors, fraud, & inefficiencies by independently checking & validating transactions against specified control parameters and business rules. Summary reports, available through an intuitive browser-based user interface, provide the opportunity to drill down to specific exceptions and transactions. Management and business process owners receive timely notification of control breaches, can quickly review quantified exposure of business risk, and investigate and resolve potential problems before they escalate. As a result, organizations can better support compliance, contain costs, and minimize losses.



ACL BUSINESS ASSURANCE ANALYTICS TECHNOLOGY

With CCM solutions, organizations can continuously test and monitor internal controls, embedding audit "best practices" into organizations' day-to-day business operations. They apply automated, pre-defined analytics to critical control points, mapped to the COSO framework, within core business process areas. By comparing and analyzing data from multiple systems across the enterprise, CCM solutions support efficient, independent testing of business transactions to identify errors, exceptions, and control weaknesses. Management and compliance teams receive timely notification of control exposures within the enterprise - & gain independent assurance of the integrity of transactions underlying financial reporting.

THE KEY ATTRIBUTES OF CCM TECHNOLOGY INCLUDE THE ABILITY TO:

- Check and validate transactional data from any ERP (including SAP, Oracle, and PeopleSoft), mainframe system, or custom-built application, against organizations' control parameters and business rules
- Rapidly analyze unlimited volumes of data, with seamless data access and aggregation from virtually any enterprise application, while maintaining data integrity
- Leverage powerful ACL analytics to identify suspicious activity, errors, segregation of duties issues, and exceptions that may be hidden within high volumes of transactions
- Receive prompt notification of control breaches, through an easy-to-use browser-based user interface
- Quickly review quantified exposure of business risk, and drill down to specific exceptions and transactions to resolve potential problems before they escalate

The flexible nature of CCM solutions also recognizes that every organization's controls and operational policies are unique - even within common business processes. The analytic parameters can be easily fine-tuned by authorized personnel as circumstances change - for example, when approval limits change, staff take on new or expanded responsibilities, or business risk profiles demand more frequent testing of key controls. CCM technology provides management with an enterprise-wide approach to controls testing and compliance that is efficient, cost effective, and sustainable.

ENTERPRISE SOLUTIONS FOR CONTROLS MONITORING

Continuous Controls Monitoring solutions address controls and business challenges within core financial and operational processes that represent significant areas of potential business risk. The extensible CCM framework allows organizations to easily add application modules to gain immediate and comprehensive insight into control exposures across the enterprise. The ACL CCM product suite addresses the following core business processes:

- General Ledger
- Order-to-Cash Cycle
- Payroll
- Purchase-to-Payment Cycle
- Purchasing Cards
- Travel & Entertainment Expenses

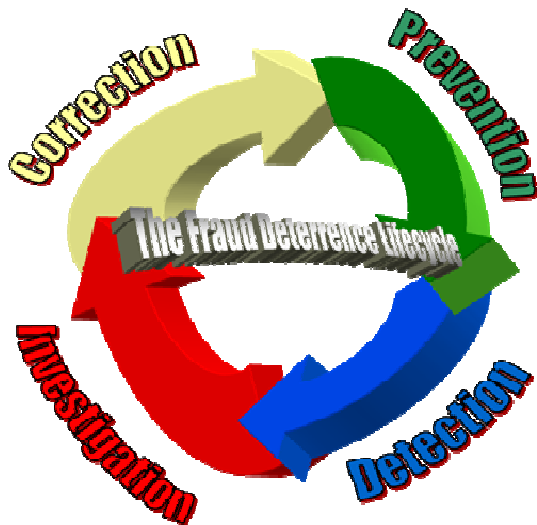
Exactech have partnered with CQS to provide organisations with a CCM solution tailored to their unique circumstances. If you would like to find out more about this new business solution or if you would like us to deliver a free 30-minute presentation, please contact either Mario on 083-6110161, e-mail: Mario@exactech.co.za, or Antonio on 072-7814157, e-mail: Antonio@exactech.co.za ■

FRAUD DETERRENCE

"The first duty of business is to survive, and the guiding principles of business economics is not the maximising of profits - it is the avoidance of losses"
- Peter Drucker

A major step forward in the avoidance of losses is when boards of directors acknowledge that fraud control is one of the key building blocks of good governance. This places the issue where it should be: not simply as a compliance requirement, but as a key feature of good governance for all organisations.

A best practice fraud management process, called 'The Fraud Deterrence Lifecycle' (FDL) is depicted below...



Source: Ron Warmington, GE Money

In the fraud arena, 'Prevention', 'Detection' and 'Deterrence' are sometimes used synonymously. This contributes to confusion within the organization about the focus of Prevention activities so let's look at the definitions of all the above words.

Prevention activities are intended to prevent the fraud from occurring.

Detection activities are intended to uncover the existence of fraud that could not be prevented.

Investigation is a systematic examination of facts surrounding the detected incident.

Correction is the action of addressing the root causes of what allowed the fraud/s to occur and would include control improvements, sanctions and redress.

Deterrence is the stopping of fraud before it is attempted. This would be attributed to fear of being caught and punished as well as the difficulty aspect of perpetrating the fraud. Deterrent value is a summary of the deterrent contributions provided by each of the four stages in the Fraud Deterrence Lifecycle. Thus, successful deterrence relies upon the existence and performance of all four stages of the Fraud Deterrence Lifecycle.

In future newsletter issues we will be discussing each of these four elements starting with the Prevention element initiatives as 'prevention' tends to be the most misunderstood part of the deterrence lifecycle & yet can provide the most value.

If you cannot wait for future newsletter issues in order to get the whole picture, each of the nine prevention building blocks will be discussed in great detail at the various IIA and CIMA fraud workshops as listed on the next page. ■

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Fraud Awareness Training - Diarise these Dates!

The following Fraud Awareness workshops are being run during 2008:

The Institute of Internal Auditors South Africa (all hosted in Johannesburg)

- **1-day Fraud Awareness - 7th July 2008**
- **2-day Prevention & detection of white collar crime: 14-15 April & 8-9 Sept. 2008**
- **4-day How to detect & prevent occupational fraud - 13-16 May & 27-30 Oct. 2008**

For more information or to register, please contact:

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The Chartered Institute of Management Accountants (CIMA):

- 2-day 'Catch Fraud before it Catches You' Mastercourse
Western Cape- 9-10 July 2008
Durban- 16 -17 July 2008
Johannesburg - 23-24 July 2008
- 1-day Fraud Prevention Mastercourse
Botswana – 18 September 2008
Zambia – 16 October 2008

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What delegates can expect from the above courses...

- Practical examples of fraudulent items will be examined.
- Local and international fraud case studies will be discussed in order to ascertain best practices.
- DVD's will be used to introduce the audience to a mob boss, ex fraudsters, and whistleblowers.
- Delegate's knowledge levels will be assessed at the beginning and at the end of the course in order to measure how much they learnt.

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