

PART ONE

Questions and Problems

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Nature of Fraud

THROUGHOUT HISTORY, THE DEVELOPMENT OF NEGOTIABLE instruments, from cowrie shells to plastic cards, has led to the creation of a set of rules and conventions for trade and the promotion of smooth and orderly commercial interactions among individuals and countries. The breaking of these rules and conventions helps white-collar criminals make a living—in some cases a fortune—while evading discovery. In many countries, the courts and judicial system do not afford economic crimes the priority of crimes involving violence.

QUESTIONS: FILL IN THE BLANKS

Refer to Chapter 1 in *Corporate Fraud and Internal Control: A Framework for Prevention*.

1. Fraud itself is a _____ concept existing within the criminal laws of virtually every civilized country.
2. In most countries, fraud may be deemed to occur when these individual elements exist: An _____ representation about a _____ fact or event is _____ made by an individual or organization.

3. For fraud to exist, such representation _____ be believed by the person or organization whom the representation was made.
4. For fraud to exist, the victim _____ suffer the possibility of _____ or _____ as a result of the misrepresentation.
5. Under South African law, _____ proprietary prejudice is not necessarily required for fraud.
6. Under Arkansas law, occupational fraud and abuses include misappropriation of _____ in the form of _____, fraudulent disbursements, theft, or personal use of inventory or other _____.
7. A crime that is commonly confused with fraud is _____.
8. The misrepresentation leading to fraud can also be committed by means of an admission whereby the perpetrator fails to disclose a _____.
9. There is no definitive _____ control that can stop all fraud in its tracks.
10. Fraudulent activity could be looked on as: *any _____ in which deceitful practices are resorted to by an organization or representative of an organization with the intent to cause _____ would deprive another of property or other entitlements.*
11. The ultimate bearer of the cost of fraud in most cases is _____.
12. In order to adopt a comprehensive policy toward the minimization of fraud within the organization, a full _____ is required.
13. Much of the corporate fraud that takes place results from poor bookkeeping practices combined with _____ and _____ staff.
14. In general, the motivating factor leading individuals to commit fraud can be defined as a form of _____. This can take the form of significant financial need (or perceived need) and may include anything from _____ to a simple case of an employee having _____.
15. For this to translate into a fraud-enabling pressure, generally some _____ is involved.
16. _____ is the process by which fraudsters can reconcile their behavior in committing the fraud with their own _____ regarding honesty and trust.
17. Opportunity involves the _____ of people to commit fraud in what they believe will be an _____ manner.
18. Most fraud opportunities are created by _____ or weak _____ with an absence of detective controls increasing the probability.
19. Detection involves not only being alert for _____ in business records and areas where internal controls may be ineffectual, but also for red flags in employee _____ and changes in behavior patterns.

20. Red flags are _____ indicators that the risk of fraud in a particular area either is higher than is normally tolerable or has increased over a period. Once again, these can be categorized as _____, changes in behavior, and general personality traits.
21. Typically, the primary objective of fraudsters is to _____ with the secondary, although essential, objective to _____ in order to avoid detection.
22. Frauds can be split into two broad categories: frauds against the _____ and frauds against the _____.
23. In the past, such undetected fraud was subject to guesstimates with no real indication of the reliability for the figures produced. Recently, _____ has given greater reliability to the estimated values for such fraud.
24. According to the Association of Certified Fraud Examiners *Report to the Nations on Occupational Fraud and Abuse*, a typical organization will, in all probability, lose some _____ percent of its annual revenue to fraud.
25. Occupational frauds are much more likely to be detected by _____ than by any other means.
26. It is accepted that certain costs are a necessary part of doing business. Fraud, however, is frequently a _____ cost.
27. In addition to the initial losses, cost of fraud includes the cost of insuring against _____ due to employee dishonesty as well as loss of reputation.
28. Some insurance policies cover _____ costs, but others do not, or cover them only for proven fraud that is covered by the particular policy.
29. One of the main deterrents to insider fraud is the degree of certainty that any attempt will be _____ and that the perpetrator will be caught.
30. It is critical that organizations encourage the reporting of fraudulent activities or suspected wrongdoings by maintaining a strong _____ and _____, while at the same time giving employees a mechanism and the confidence to carry out such reporting without fear of retribution.
31. Corruption includes the purchasing of intangibles, such as _____, direct influence, or political appointment, and can be seen in virtually every country in the world.
32. The U.S. Improper Payments Information Act (2002) required public agencies to publish a _____ of the extent of fraud and error in their programs and activities.



QUESTIONS: SHORT ANSWER

1. The three elements of the fraud triangle are:
 - a.
 - b.
 - c.

2. A bookkeeper employed by a company for 15 years was passed over for promotion because of a disagreement with his supervisor. Despite appealing through the human resources department, nothing was done. Six months later, the bookkeeper resigned and left the company. A new appointment was made and, shortly after this appointment, a shortage was discovered in the petty cash system. Although nothing could be proven, the previous bookkeeper fell under suspicion despite his previous good record.

What grounds would management have for suspecting the previous bookkeeper?

3. As an auditor for the national defense force, you have been sent to audit the payroll section at army headquarters that handles the processing of the military payrolls for the army, air force, and navy. All types of weekly and monthly paid staff are processed in this office.

There have been suggestions that payroll data have been tampered with prior to being sent for data capture, and you have been asked to conduct an investigation.

What red flags would indicate the possibility of insider participation in such a fraud?