**TUTORIAL QUESTIONS.**

**QUESTION ONE**

1. Consider the three aspects of the fraud motivation triangle. If you were hired by the board of directors to tell them what they could do to prevent fraud, what general activity would you tell them to engage in? List four activities for each of the three dimensions of the fraud triangle.
2. Discuss why fraud committed by a firm can have a spillover effect on other firms.
3. Briefly explain the auditor’s responsibility, management’s responsibility, and the responsibility of the board of directors on fraud prevention, detection, and control

**QUESTION TWO**

1. Clearly explain the word “ Whistleblowing”
2. Discuss whether giving a financial incentive to fraud whistleblowers is good public policy.
3. Explain whether financial incentives are truly necessary to ensure an effective fraud whistle-blowing program.
4. Describe how to protect whistleblowers from retaliation from their employers.

**QUESTION THREE**

The Anti-Money Laundering Act of Tanzania defines money laundering as an “engagement of a person or persons, direct or indirectly in conversion, transfer, concealment, disguising, use or acquisition of money or property known to be of illicit origin and in which such engagement intends to avoid the legal consequence of such action”. A person who engages, directly or indirectly, in a transaction that involves property that is proceeds of a predicate offence while he knows or ought to know or ought to have known that the property is the proceeds of a predicate offence commits an offence of money laundering.

The effects of money laundering are severe and extensive. It can create global and local impacts on businesses, economies, and societies.

**Required**

1. Discuss the negative effects of money laundering on the economy.
2. Distinguish forensic accounting, fraud auditing, and investigative auditing from financial auditing.

**QUESTION FOUR**

You are an audit manager at Kijanga & Co, responsible for the audit of Sun & Moon Co, a large company that provides information technology services to business customers. The finance director of Sun & Moon Co, Najma Ally contacted you this morning, saying:

‘I was alerted yesterday to a fraud being conducted by members of our sales team. It appears that several sales representatives have been claiming reimbursement for fictitious travel and client entertaining expenses and inflating actual expenses incurred.

Specifically, it has been alleged that the sales representatives have claimed on expenses for items such as gifts for clients and office supplies which were never actually purchased, claimed for business-class airline tickets but in reality had purchased economy tickets, claimed for non-existent business mileage and used the company credit card to purchase items for personal use.

I am very worried about the scale of this fraud, as travel and client entertainment is one of our biggest expenses. All of the alleged fraudsters have been suspended pending an investigation, which I would like your firm to conduct.

We will prosecute these employees to attempt to recoup our losses if evidence shows that a fraud has indeed occurred, so your firm would need to provide an expert witness in the event of a court case. Can we meet tomorrow to discuss this potential assignment?’

Sun & Moon Co has a small internal audit department and in previous years the evidence obtained by Sahara & Co as part of the external audit has indicated that the control environment of the company is generally good. Sun & Moon received an unmodified report on the financial statements for the year ended 31 March 2022

**Required:**

Assess the ethical and professional issues raised by the request for your firm to investigate the alleged fraudulent activity.

**QUESTION FIVE**

Mpuma Toys Co (Mpuma) is a manufacturer of children’s building block toys; they have been trading for over 35 years and they sell to a wide variety of customers including large and small toy retailers across the country. The company’s year-end is 30 June 2022

The company has a large manufacturing plant, four large warehouses, and a head office. Upon manufacture, the toys are stored in one of the warehouses until they are dispatched to customers. The company does not have an internal audit department.

Sales ordering, goods dispatched, and invoicing

Each customer has a unique customer account number and this is used to enter sales orders when they are received in writing from customers. The orders are entered by an order clerk and the system automatically checks that the goods are available and that the order will not take the customer over their credit limit.

For new customers, a sales manager completes a credit application; this is checked through a credit agency, and a credit limit is entered into the system by the credit controller. The company has a price list, which is updated twice a year. Larger customers are entitled to a discount; this is agreed upon by the sales director and set up within the customer master file.

Once the order is entered an acceptance is automatically sent to the customer by mail/email confirming the goods ordered and a likely dispatch date. The order is then sorted by the address of the customer. The warehouse closest to the customer receives the order electronically and a dispatch list and sequentially numbered goods dispatch notes (GDNs) are automatically generated.

The warehouse team pack the goods from the despatch list and, before they are sent out, a second member of the team double checks the despatch list to the GDN, which accompanies the goods.

Once dispatched, a copy of the GDN is sent to the accounts team at head office and a sequentially numbered sales invoice is raised and checked to the GDN. Periodically a computer sequence check is performed for any missing sales invoice numbers.

**Fraud**

During the year a material fraud was uncovered. It involved cash/cheque receipts from customers being diverted into employees’ personal accounts. In order to cover up the fraud, receipts from subsequent unrelated customers would then be recorded against the earlier outstanding receivable balances and this cycle of fraud would continue.

The fraud occurred because two members of staff ‘who were related’ colluded. One processed cash receipts and prepared the weekly bank reconciliation; the other employee recorded customer receipts in the sales ledger.

An unrelated sales ledger clerk was supposed to send out monthly customer statements but this was not performed. The bank reconciliations each had a small unreconciled amount but no-one reviewed the reconciliations after they were prepared.

The fraud was only uncovered when the two employees went on holiday at the same time and it was discovered that cash receipts from different customers were being applied to older receivable balances to hide the earlier sums stolen.

**Required:**

Identify and explain controls Mpuma should implement to reduce the risk of fraud occurring again and, for each control, describe how it would mitigate the risk.

**QUESTION SIX**

A client heard through its hot line that John, the purchases journal clerk, periodically enters fictitious acquisitions. After John creates a fictitious purchase, he notifies Alice, the accounts payable ledger clerk, so she can enter them in her ledger. When the payables are processed, the payment is mailed to the nonexistent supplier’s address, a post office box rented by John. John deposits the check in an account he opened in the nonexistent supplier’s name.

Required;

1. Define the term fraud, fraud deterrence, fraud detection, and fraud investigation.
2. List TEN personal (as opposed to organizational) fraud symptoms, or red flags, that indicate the possibility of fraud.</para></listitem> Do not confine your answer to this example.
3. List two procedures you could follow to uncover John’s fraudulent behavior.