

# FRAUD DETECTION & FORENSICS

A Strategic Framework for Risk Mitigation

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# Opportunity is the only controllable element of fraud.

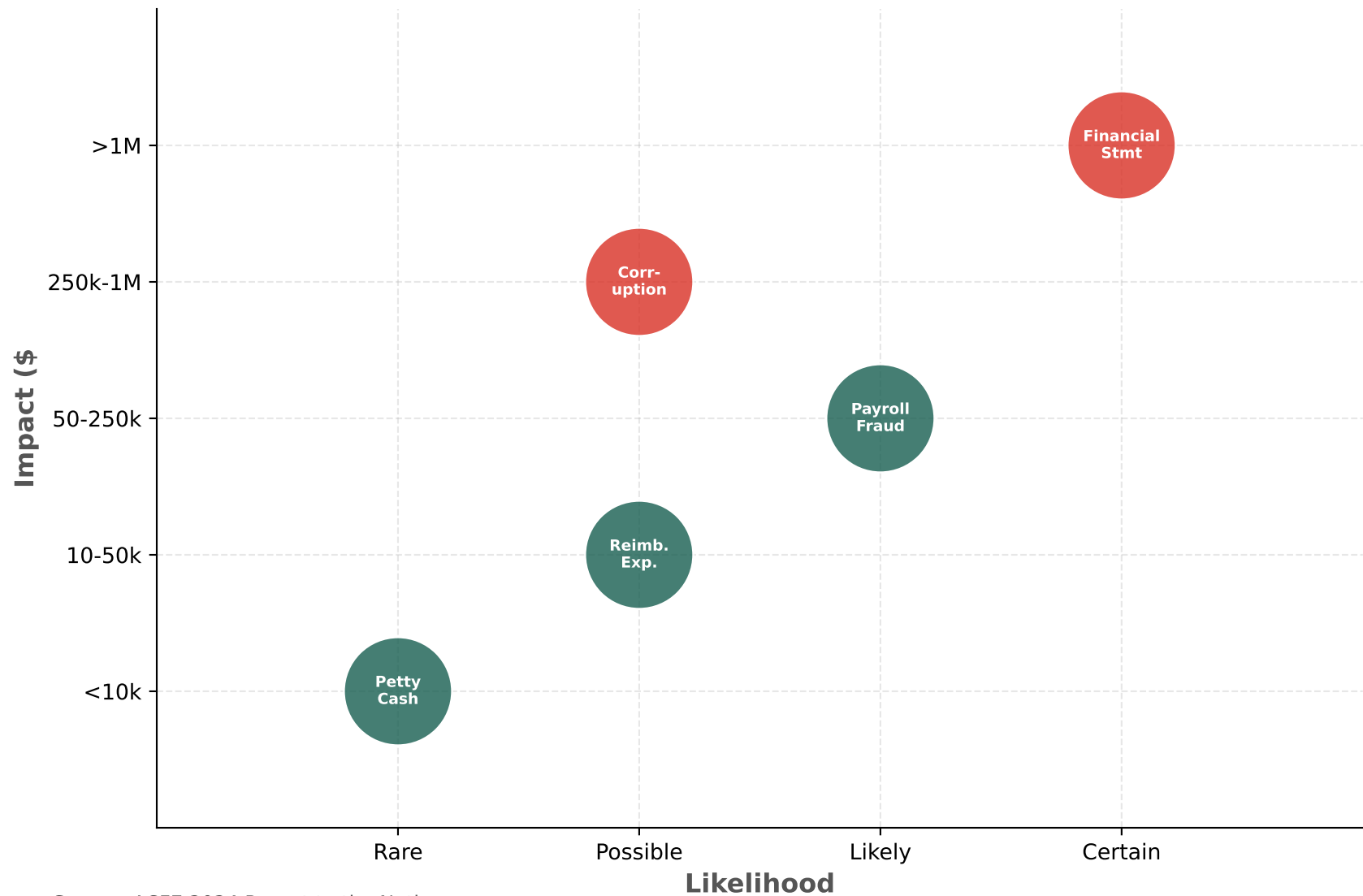


## KEY INSIGHT

While we cannot control an employee's financial pressure or personal rationalization, we **CAN** control the Opportunity through internal controls. Eliminating opportunity stops the fraud.

# Focus limited resources on High-Impact risks.

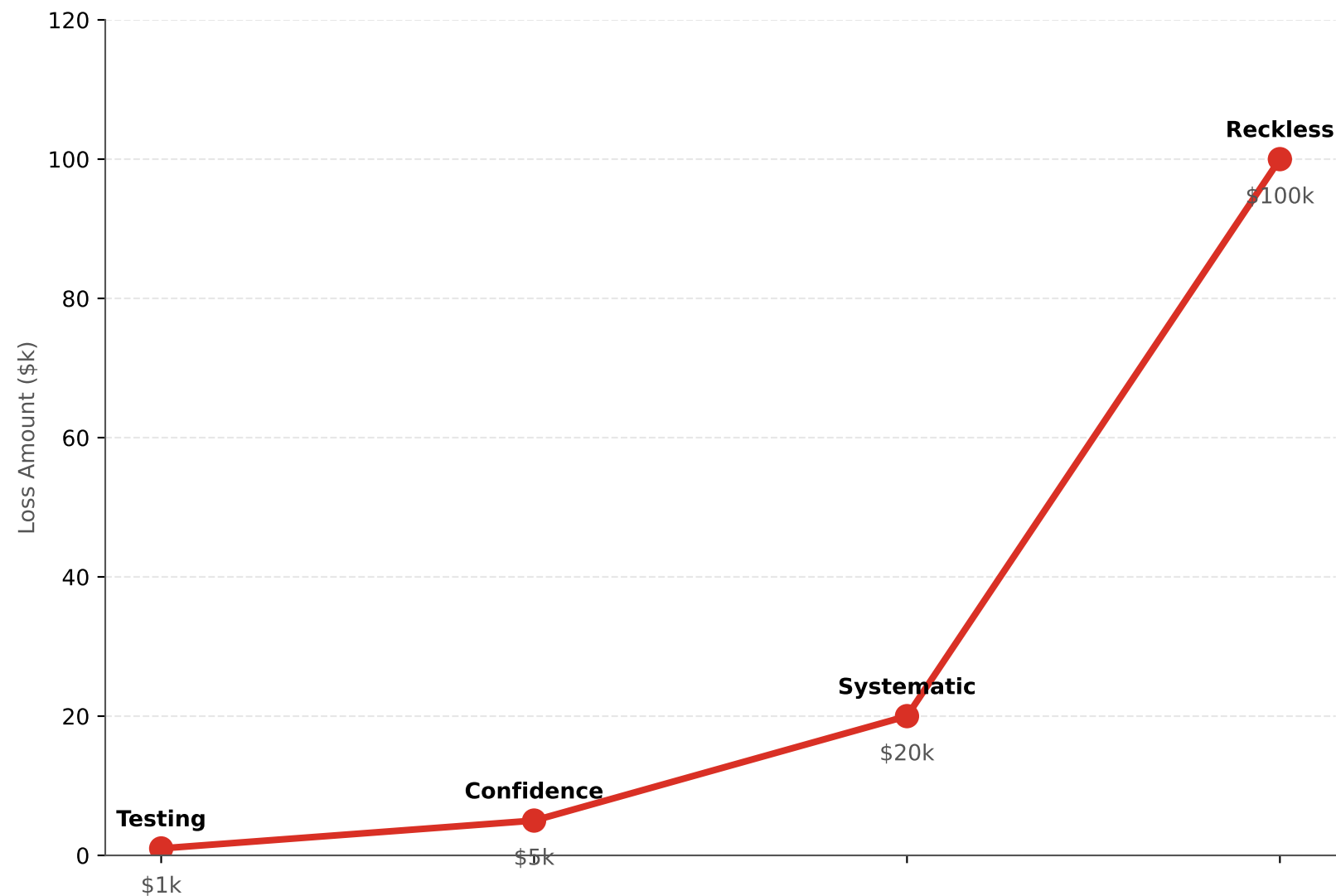
## Fraud Risk Assessment Matrix



### KEY INSIGHT

Financial Statement Fraud occurs rarely but causes catastrophic damage (>1M). Asset misappropriation is common but less costly. Calibrate controls accordingly.

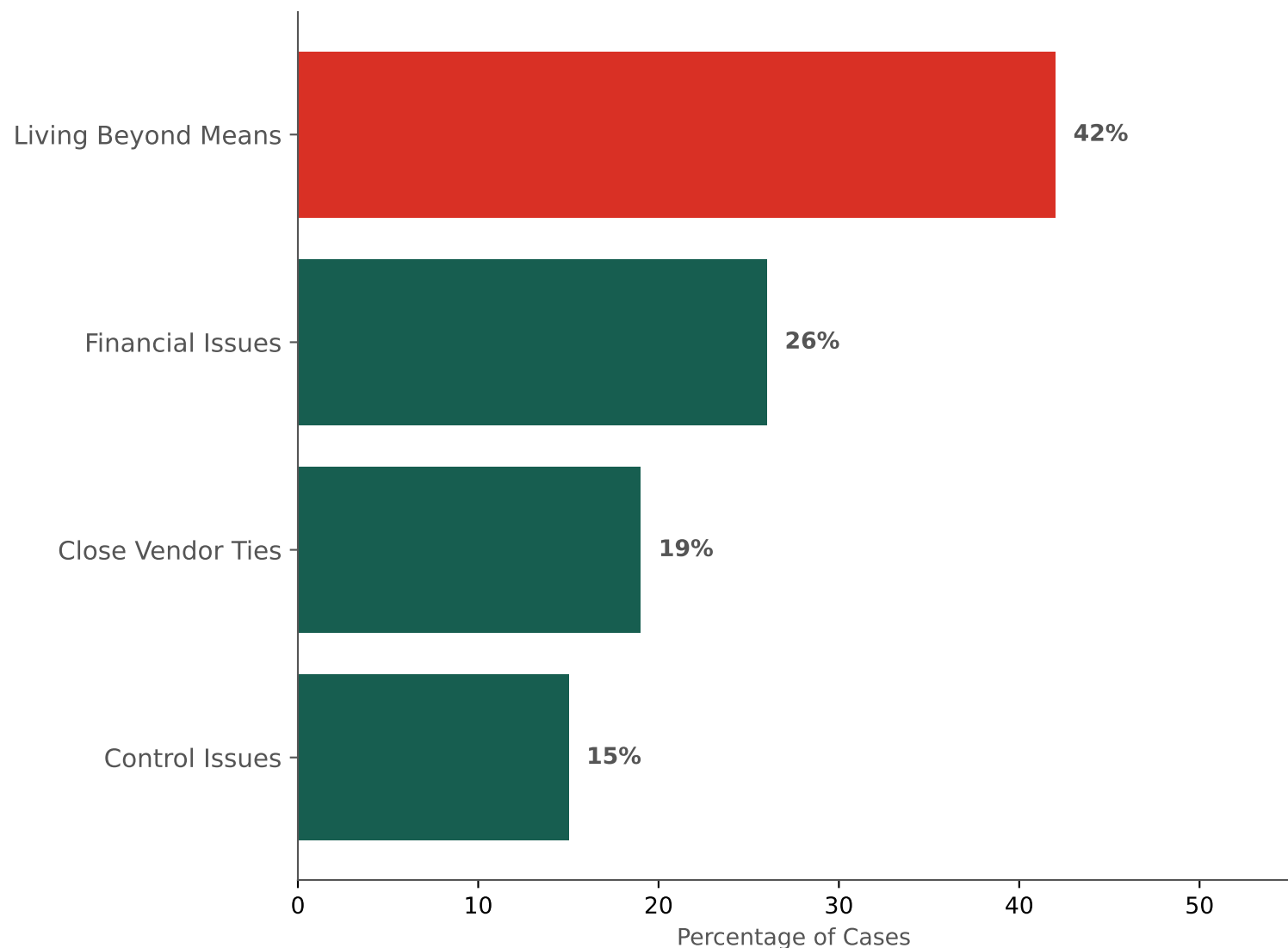
# Fraudsters test controls with small amounts before scaling.



## KEY INSIGHT

Most fraud is detected in the 'Systematic' phase (median 16 months). Catching fraud in the 'Testing' phase (\$1k) prevents 20x larger losses later.

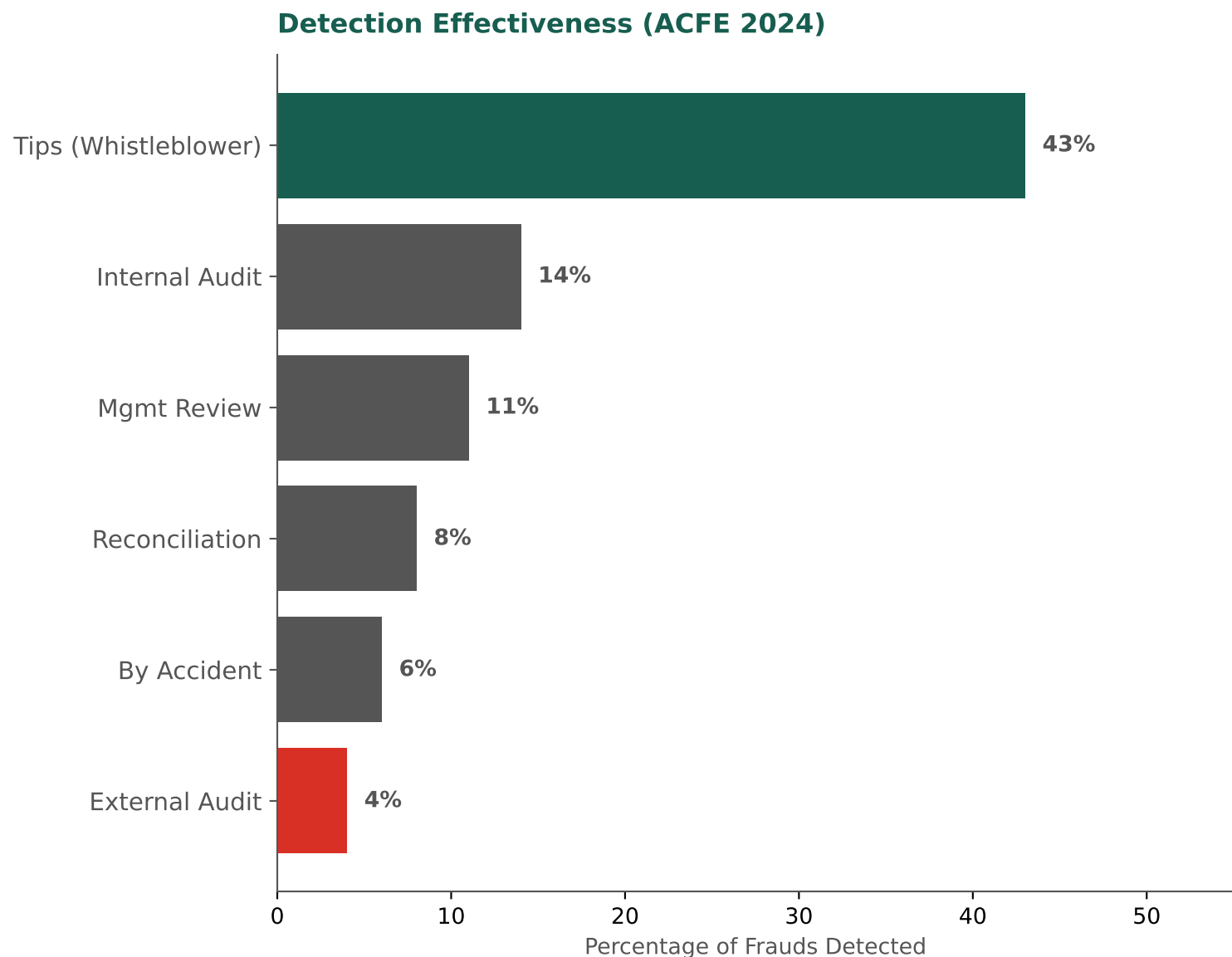
# Behavioral changes often precede financial discovery.



## KEY INSIGHT

'Living beyond means' is the single most common indicator, present in 42% of cases. Train managers to spot lifestyle changes inconsistent with salary.

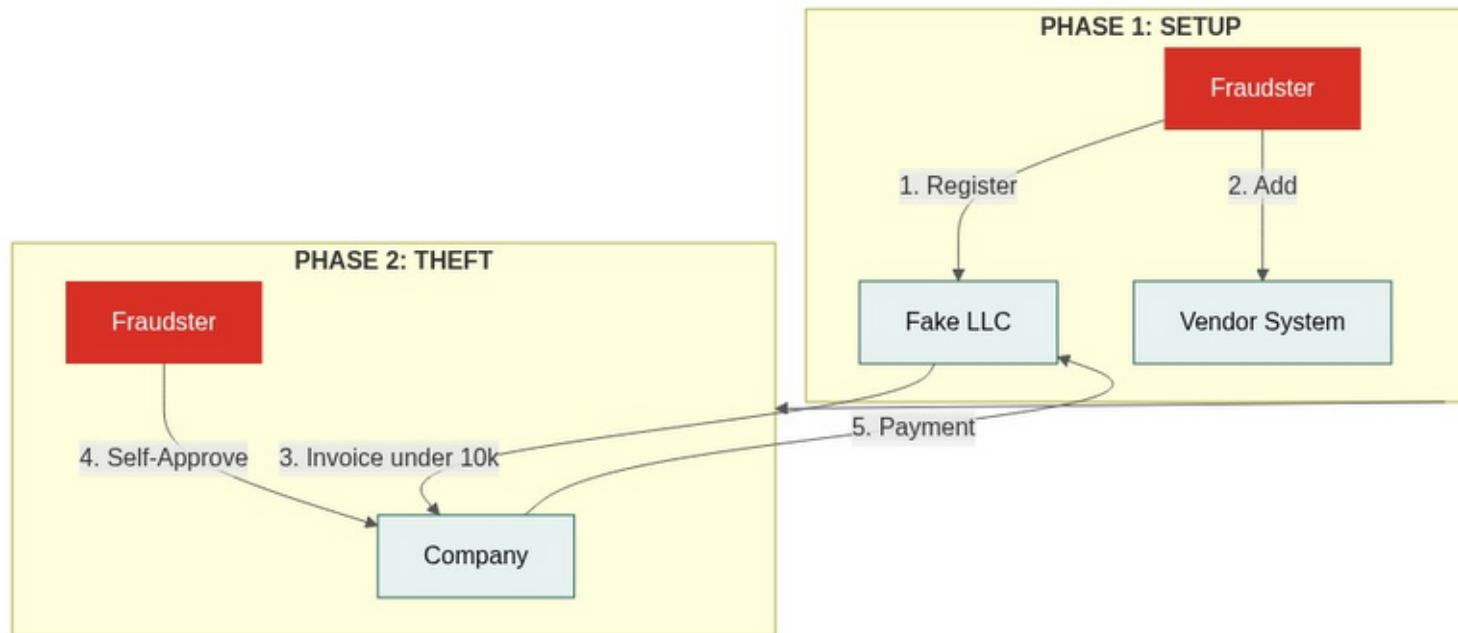
# Whistleblower tips are the #1 fraud detection mechanism.



## KEY INSIGHT

Tips detect 43% of fraud, compared to only 4% by External Audit. Invest in whistleblower hotlines rather than relying solely on annual audits.

# Shell companies exploit vendor approval weaknesses.



## KEY INSIGHT

Fraudsters usually keep invoices just below approval thresholds (e.g., 9,500 USD vs 10k limit) to avoid management review.

# Ghost employees mimic legitimate data patterns.

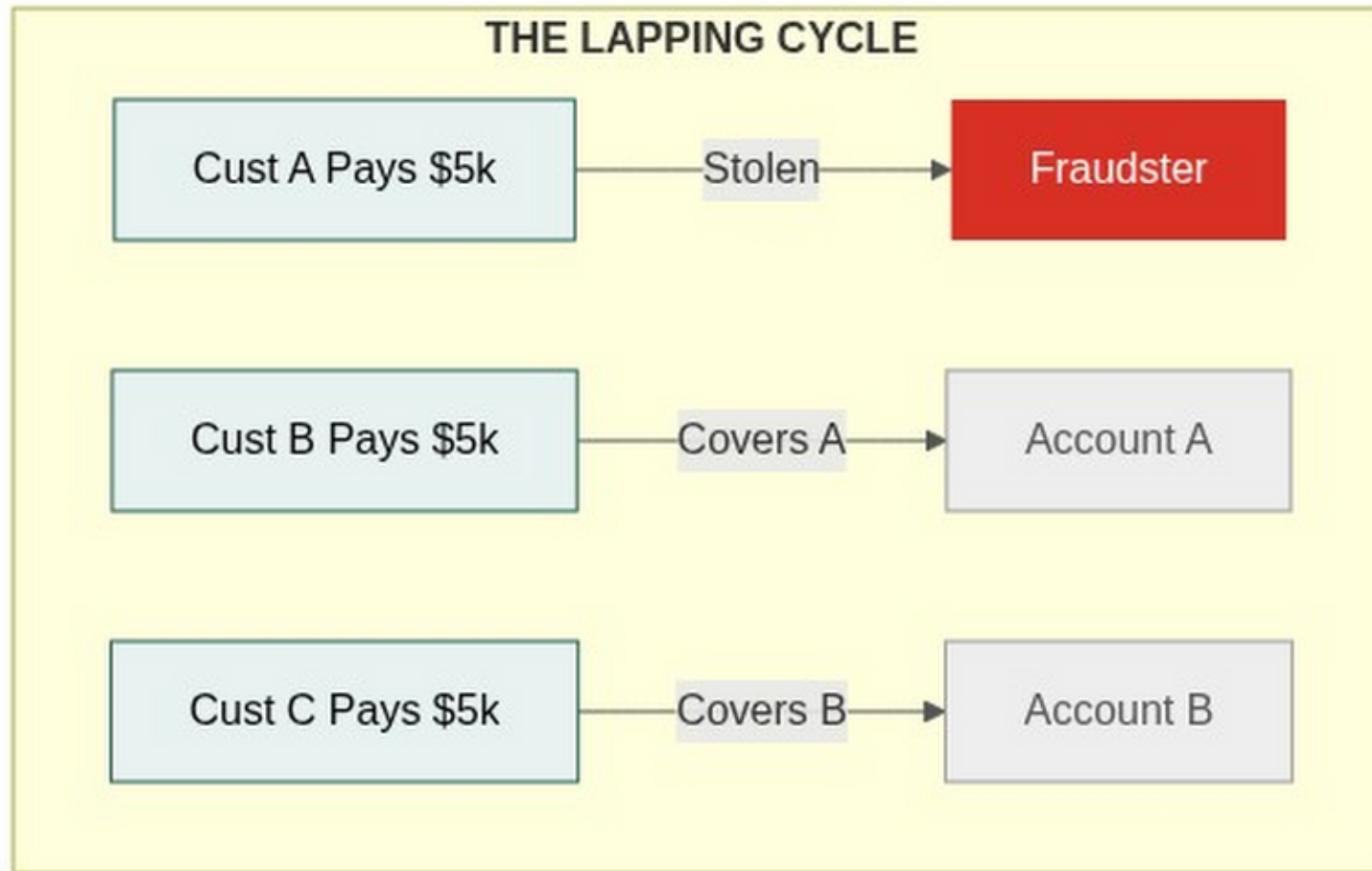


## KEY INSIGHT

Payroll fraud often relies on the volume of data to hide. Red Flag: Multiple employees sharing bank accounts or addresses.



# Lapping schemes conceal theft by cycling payments.

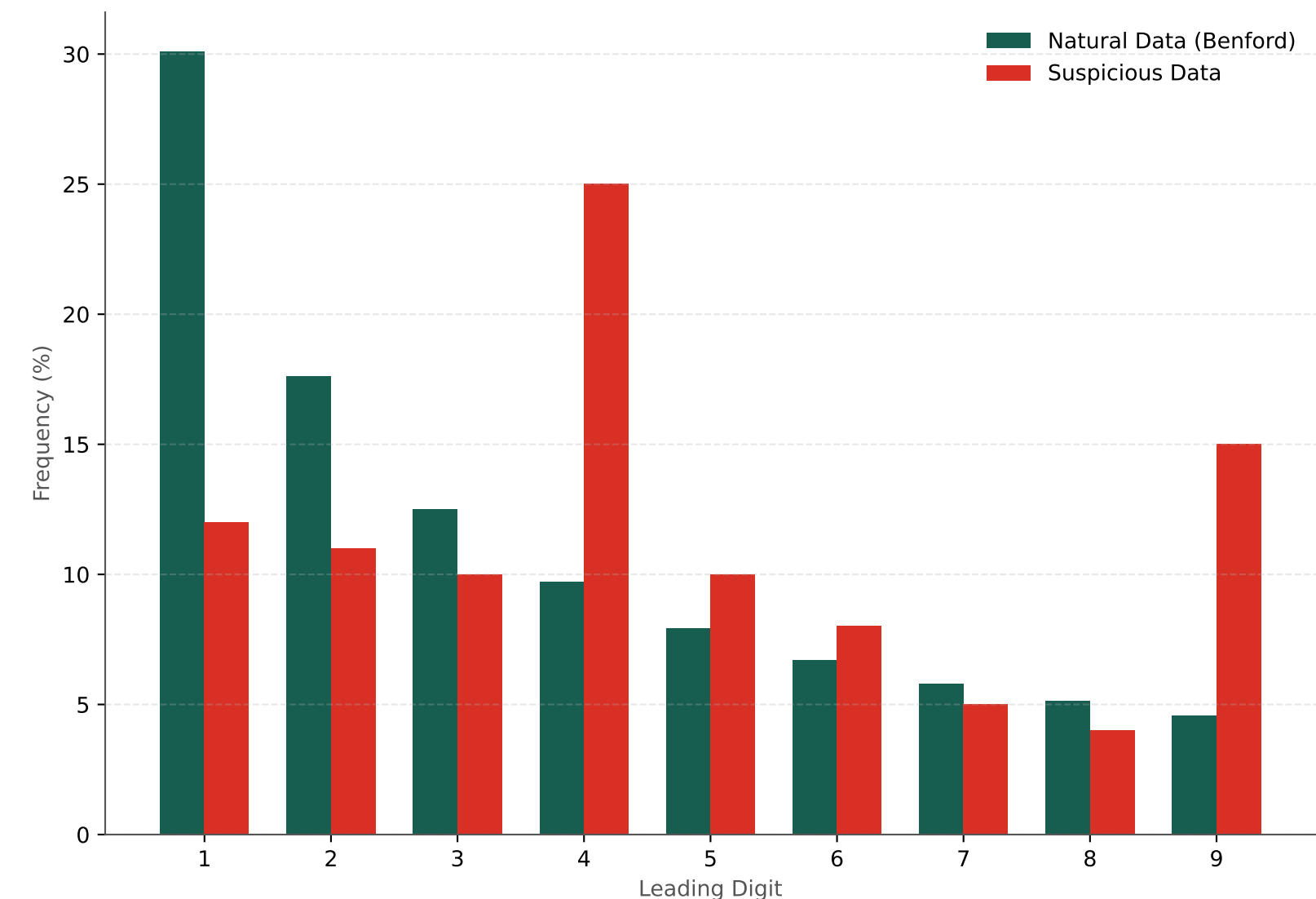


## KEY INSIGHT

This perpetual cycle requires the fraudster's constant attention. Mandatory vacation policies are the #1 way to detect this, as the scheme collapses when the fraudster is away.

# Digital analysis detects manipulated financial data.

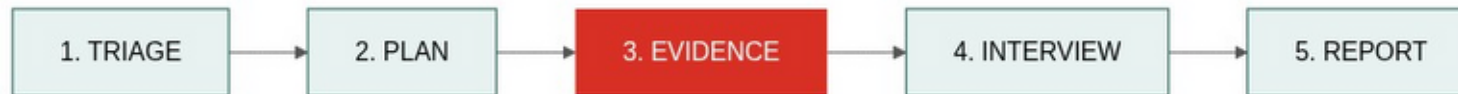
## Digital Analysis of Vendor Invoices



### KEY INSIGHT

Benford's Law predicts the frequency of leading digits in natural datasets. Fake invoices often overuse digits like 4 or 9, creating visible spikes (Red bars) against the expected curve.

# A systematic investigation workflow protects evidence.



## KEY INSIGHT

Securing evidence immediately (Step 3) is critical. Most cases fail because the suspect deletes data while management deliberates on the scope.