

Integrated GRC & Fraud: Responding to New Expectations

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Presentation Outline

- Fraud & Government
- Traditional Approaches to Fraud
- “Authoritative” Fraud Guidance
- Current Expectations: Federal
- A CASE STUDY: Fraud Risk Assessment
- Questions

Fraud & Government

Fraud risk is generally high across all levels of government.
Actual vulnerability varies dramatically.
Political risk, when fraud is exposed, can also be high

A sample of government fraud risk areas:

- UIC/CPP
- Parks
- Health
- Procurement of all types
- Transfer payments
- Grant programs
- Student aid
- CRA

Fraud & Government

The screenshot shows the Service Canada website header. On the left is the Service Canada logo. On the right is the Canada wordmark. Below the logos is a banner with the text "Service Canada People serving people" and a red maple leaf. Underneath the banner is a navigation menu with links for Français, Home, Contact Us, Help, Search, and canada.gc.ca. On the left side of the page, there are two vertical menus: "About Service Canada" and "Life Events".

Service Canada
People serving people

Canada

Home

Defrauding the Employment Insurance (EI) Program is a Serious Offence

What you should know...

- Mistakes can happen
- Consequences of fraud
- Penalties for individuals
- Penalties for employers
- Warning letter to individuals
- Warning letter to employers
- Violations
- Prosecution
- Interest charged on fraudulent debts
- Voluntary disclosure

About Service Canada
People serving people

Life Events

- Finding a Job
- Raising a Family
- Having a Baby
- Managing your Debt
- Starting a Business
- [See all Life Events](#)

Some fraud risks have been around a long time
New fraud risks emerge as new programs are launched.

The screenshot shows the Canada Revenue Agency website. At the top left is the CRA logo. At the top right is the Canada wordmark. Below the logos is a banner with the text "Canada Revenue Agency www.cra.gc.ca" and a red maple leaf. Underneath the banner is a navigation menu with links for Français, Home, Contact Us, Help, Search, and canada.gc.ca. Below the navigation menu is a breadcrumb trail: "Media > Fact sheets > 2009". On the left side, there is a "Go to" menu with links for Forms and Publications, Online services, A to Z index, Site map, Information for Individuals, Business, and Other groups. Below the "Go to" menu is a "Search CRA" box. The main content area displays the title "Fact sheet The Home Renovation Tax Credit" and the text "Save up to \$1,350 on home improvements purchased before February 1, 2010. Put your tax dollars back into your home. What is the HRTC? Under proposed changes, the HRTC is a non-refundable tax credit based on eligible expenditures incurred for work performed, or goods acquired, after January 27, 2009, and before February 1, 2010, under an agreement entered into after January 27, 2009. The HRTC can be claimed when filing your 2009 tax return."

Canada Revenue Agency
Agence du revenu du Canada

Canada

Home

Fact sheet

The Home Renovation Tax Credit

Save up to \$1,350 on home improvements purchased before February 1, 2010.

Put your tax dollars back into your home.

What is the HRTC?

Under proposed changes, the HRTC is a **non-refundable** tax credit based on eligible expenditures incurred for work performed, or goods acquired, after January 27, 2009, and before February 1, 2010, under an agreement entered into after January 27, 2009. The HRTC can be claimed when filing your 2009 tax return.

Fraud & Government

Some frauds come from unexpected places

Example: Grant fraud perpetrated by a women's charity

that it violated freedom of religion.) Then, in June 1991, **Patti Starr** finally had her day in court regarding contributions to the Liberal Party on behalf of the Toronto section of the National Council of Jewish Women. **Patti Starr** pleaded guilty to eight election expense charges, for which she was fined \$3,500, while twenty-five other such were withdrawn or dismissed. She also pleaded guilty to two criminal charges (out of the eleven originally laid) – breach of trust, in using \$33,000 in charitable funds for her own purposes (later repaid); and **fraud**, in obtaining a government **grant** for her organization of about \$360,000 more than it was entitled to. For these two convictions, she was sentenced to two concurrent six-month terms in jail and was paroled after two months. The province launched a \$100 million lawsuit against the



Fraud & Government

Control problems often represent major fraud risks

Example :
Unsolicited CRA
“gift” of \$26K to
Leech & Associates

Canada Revenue Agency / Agence du revenu du Canada
Summerside PE C1N 5Z7

LEECH & ASSOCIATES - FORENSIC/
INVESTIGATIVE ACCOUNTANTS INC.
C/O TIM LEECH
101 BURNET STREET
OAKVILLE ON L6K 1B9

Page 1 of 6

Date of mailing	August 24, 2007
Business Number	13107 5418 RC0001
Taxation year-end	October 31, 2006

0002749

CORPORATION NOTICE OF ASSESSMENT

RESULTS

This notice explains the results of our assessment of the T2 Corporation Income Tax Return for the taxation year indicated above. It also explains any changes we may have made to the return.

Result of this Assessment :	\$	26,865.99	Cr
Amount refunded:	\$	26,865.99	
Prior balance:	\$	0.00	
Total balance:	\$	0.00	

We are sending you a cheque for \$26,865.99 separately.
Please refer to the Summary and Explanation for additional information.

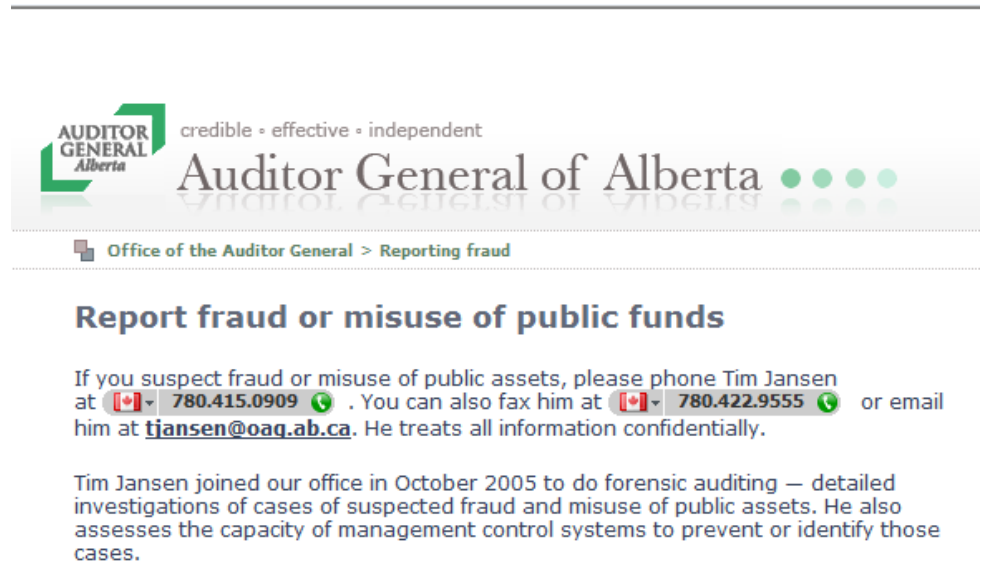
Traditional Approaches to Fraud





SUMMARY OBSERVATIONS RE TRADITIONAL APPROACHES

- Haven't worked very well
- Have often not assigned clear responsibility for fraud prevention and detection
- Are increasingly being identified as a serious weakness when major failures occur
- Were identified by the AICPA, IIA, ACFE as needing a major re-think
- Didn't require senior management or oversight groups, including audit committees, pay specific attention to fraud risk governance

Traditional Approaches to Fraud

- Internal audit's responsibility to identify fraud related risks is often not defined. Internal audit's track record identifying fraud vulnerabilities and actual frauds has not been good
- External audits' track record detecting even blatant and massive frauds has not been good. Some jurisdictions, like Alberta, are starting to put more emphasis on this area.



The screenshot shows the Auditor General of Alberta website. At the top, the logo for the Auditor General of Alberta is displayed with the tagline "credible • effective • independent". Below the logo, the text "Auditor General of Alberta" is written in a large, serif font. Underneath, there are four green dots. A navigation breadcrumb reads "Office of the Auditor General > Reporting fraud". The main heading is "Report fraud or misuse of public funds". The text below states: "If you suspect fraud or misuse of public assets, please phone Tim Jansen at  780.415.0909 . You can also fax him at  780.422.9555  or email him at tjansen@oag.ab.ca. He treats all information confidentially." Below this, a paragraph describes Tim Jansen's role: "Tim Jansen joined our office in October 2005 to do forensic auditing — detailed investigations of cases of suspected fraud and misuse of public assets. He also assesses the capacity of management control systems to prevent or identify those cases."

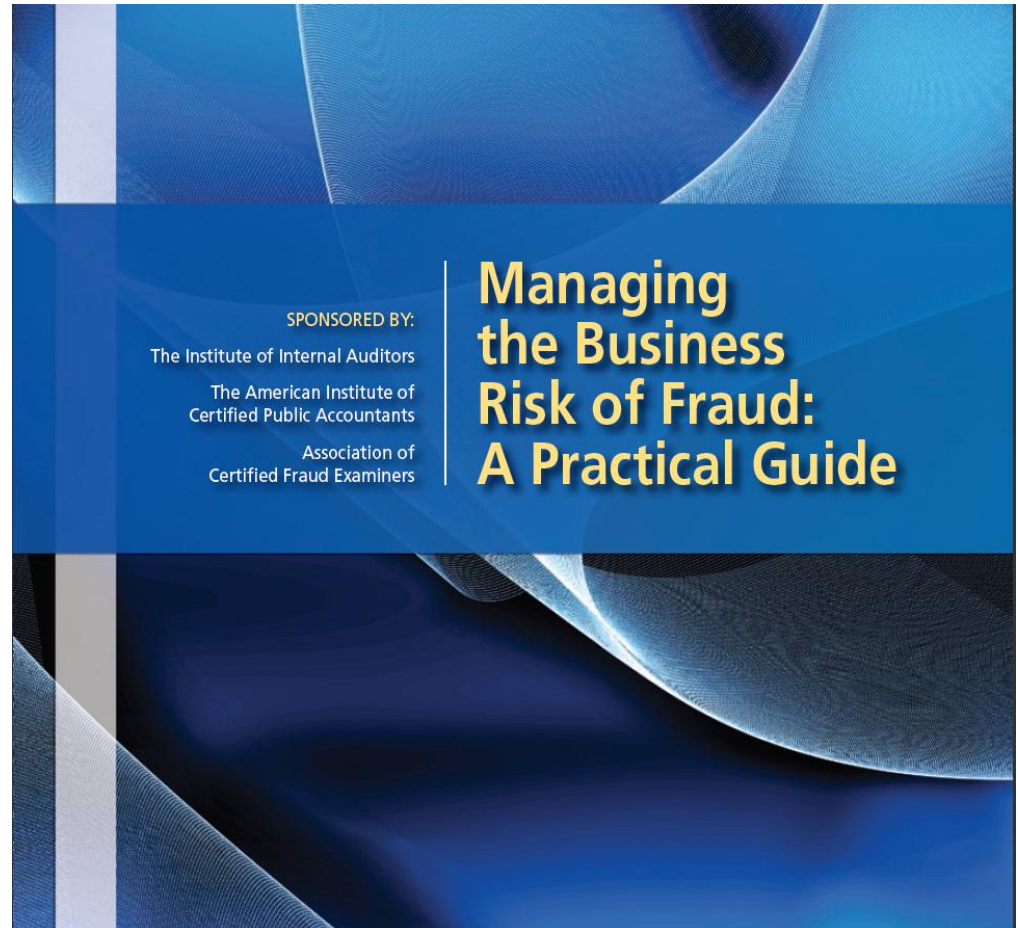
Traditional Approaches to Fraud

Penalties in Canada for fraud-related offences even today, are far less severe than those levied in the U.S.

The screenshot shows the Treasury Board of Canada Secretariat website. At the top, there is a navigation bar with the Canadian flag, the text "Treasury Board of Canada Secretariat" and "Secrétariat du Conseil du Trésor du Canada", and the "Canada" logo. Below this is a blue banner with a red maple leaf and the text "Treasury Board of Canada Secretariat" and "www.tbs-sct.gc.ca". A navigation menu includes "Français", "Home", "Contact Us", "Help", "Search", and "canada.gc.ca". On the left, there is a sidebar with "Treasury Board Secretariat Media Page" and links for "News Releases", "Speeches", and "Media Advisories". The main content area features a news article titled "Canada's New Government Brings Tougher Penalties for Fraud Involving Taxpayers' Money" dated February 7, 2007. The article text reads: "GATINEAU – The Honourable Vic Toews, President of the Treasury Board, today announced that tougher new penalties and sanctions for fraud involving taxpayers' money will come into force on March 1, 2007. The measures are part of the government's ongoing commitment to implement the *Federal Accountability Act*, which received Royal Assent on December 12, 2006. Minister Toews made the announcement in a speech to the International Congress on Ethics in Gatineau, Quebec."

“Authoritative” Fraud Guidance

The best available, most authoritative, guidance was issued in July 2008. It was endorsed in Canada by the CICA



“Authoritative” Fraud Guidance

The AICPA/IIA/ACFE guidance provides practical and useful guidance

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“Authoritative” Fraud Guidance

Principle 1: As part of an organization’s governance structure, a fraud risk management program should be in place, including a written policy (or policies) to convey the expectations of the board of directors and senior management regarding managing fraud risk.

Principle 2: Fraud risk exposure should be assessed periodically by the organization to identify specific potential schemes and events that the organization needs to mitigate.

Current Expectations: Federal

At the current time there is no Treasury Board policy that defines responsibilities and accountabilities for fraud prevention and detection across all federal Departments and Agencies.

The new Treasury Board policy statements on internal control and financial management governance, effective April 1, 2009, are silent on the issue of responsibility and accountability for fraud prevention/detection.

Current Expectations: Federal

In summary, although no comprehensive assessment has been done to assess the current level of fraud governance in the federal government that I am aware of, it appears that the Canadian federal government would not do well if assessed on the fraud prevention/detection criteria in the new AICPA/IIA/ACFE/CICA endorsed 2008 fraud guidance.

Current Expectations: Federal

It's worth noting that some departments have defined fraud prevention expectations. One example is National Defence

The screenshot shows the official website for National Defence and the Canadian Forces. At the top, there are navigation links for 'Français', 'Home', 'Contact Us', 'Help', 'Search', and 'canada.gc.ca'. The main heading is 'National Defence and the Canadian Forces' with the website address 'www.forces.gc.ca'. The page title is 'DAOD 7025-0, Fraud Prevention and Management'. The left sidebar contains a 'Style Switcher' with a dropdown menu set to 'Select one' and a 'GO' button, and a search box labeled 'What is this?'. The main content area includes sections for 'Identification', 'Definition', 'Policy Direction', and 'Context'. The 'Identification' section lists the date of issue (2008-08-15), application (DND employees and CF members), approval authority (Chief of Review Services), and enquiries (Director of Special Examinations and Inquiries). The 'Definition' section defines fraud as any act or omission constituting an offence under section 380 of the Criminal Code or paragraph 117(f) of the National Defence Act. The 'Policy Direction' and 'Context' sections describe the legal responsibility of the DND and CF to manage programs and activities in a manner consistent with public expectations for the careful and responsible management of public resources.

A Case Study

Fraud Risk Assessment

“ABC is subject to many risks that have the potential to result in significant financial loss if the proper controls and risk management practices are not in place. Fraud is one of these risks. ABC is exposed to fraud risk through fraudulent financial transactions, misappropriation of assets, revenue gained fraudulently, expenses avoided fraudulently and other misconduct. Fraud risk can not only result in significant financial loss, but it can also undermine public trust and cause severe reputational damage. As a federal Crown corporation, these risks must be managed to an acceptable level.”

Excerpt from an RFP issued by a Canadian Crown Corporation

A Case Study

Fraud Risk Assessment

“The main objectives of this assessment are:

Identify the inherently high, medium and low fraud risk areas (i.e. business units or processes where ABC is vulnerable to fraud).

Identify gaps/ weaknesses in controls to mitigate the identified risks for the areas posing the highest inherent risk of fraud.

Rank inherent and residual risk exposures based on significance.

Obtain information on how to structure and implement a fraud prevention and detection program at ABC, in accordance with best practices.”

(Source: RFP issued by federal crown corporation)

Questions????

THANK YOU

Merci

