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Fraud Risk-Why do not auditors find fraud?

When a fraudulent incident occurs at an organization, almost every stakeholder such as the public, regulator, and even the board of directors raises the same old question: how could that fraud go undetected by the auditors?

According to statistics from the association of certified fraud examiners, it might surprise those stakeholders that internal auditors detect on average 15% of the fraud causes while the external auditor's success rate is below 5%.

Auditors, both internal and external, do not find fraud because they do not look for it. It is by the design of the procedure. The scope of Internal auditors is the adherence to the internal controls measures and the existing policies and procedures. Some internal auditors do not go on the search for fraud. The audit programs do not include matrixes of fraud schemes red flags under each area mapped to specific audit procedures. Training is another reason. Some auditors do not have the required skills in the intricacies of fraud schemes. Fraudsters took advantage of the auditor's inflexible program and knowledge gaps.

So, if organizations want their internal auditors to find fraud, change the design of their procedures and programs.

Fraud Risk -Bullying in workplace and fraud, any connection?

Bullying, overt or subtle, in the workplace, causes resentment. If committed by senior and executive staff and were accommodated or unattended to by the decision-makers, or If deemed to be encouraged to climb the corporate ladder, it will eventually create a culture of the survival-of-the-fittest. In this culture, the victims of bullying will feel powerless, insulted, and isolated.
No one wants to feel powerless. To compensate for this feeling of subjection, these victims may resort to inflicting damage to their organization through asset misappropriation or corruption. And to balance their sense of self-confidence, they might also embark on sophisticated and costly schemes by breaching limits and bypassing controls, to gain self-respect. There are theories that state that Jerome Kerviel, the infamous fraudster of the Société Générale, was bullied and disrespected by traders in the trading room.
Resentment is a solid rationalization to commit fraud that could bypass standard controls.

Operational Risk - The critical importance of incidents reporting

Irrespective of how technically savvy the risk management staff and how experienced the internal auditors are, a firm will not learn on time about deficiencies in its internal controls and diversion from its policies and procedures if the first line of defense does not report them. In incident management, there are three leadership styles: blaming leadership, neutral, and rewarding leadership. The latter is in short supply, while the former is flooding the market. Naturally, at a finger-pointing culture, no one wants to be recriminated. So incidents in this environment are swept under the rug until eventually uncovered when the corrective measures are costly. But it is also in human nature that people come forward willingly once they know well in advance what is in it for them in reporting. Incentives go a long way toward motivating the first line of defense staff to report any operational incidents and work with the second line of defense in mitigation plans.

Structured incentives through the KPIs and KRIs give both guidance and comfort to staff in incident management.