

Introduction to Fraud Examination

Introduction to Fraud Examination – Study Notes

1. What Is Fraud?

Aspect	Description
Definition	Intentional deception or misrepresentation that results in personal or financial gain, and causes loss to another party.
Key Elements	1. Misrepresentation (false statement, omission, or concealment) 2. Intent (knowledge that the act is false) 3. Gain (financial, property, or other benefit) 4. Loss (damage or loss to another person/organization).
Scope	Includes occupational fraud, financial statement fraud, corruption, cyber?fraud, identity theft, and more.

2. Types of Fraud

Category	Common Examples	Typical Victims
Asset Misappropriation	Embezzlement, payroll fraud, expense reimbursement fraud, inventory theft.	Employers, shareholders, government agencies.
Corruption	Bribery, kickbacks, conflict of interest, bid? rigging.	Public entities, private firms, contractors.
Financial Statement Fraud	Overstating revenues, understating expenses, improper asset valuations, channel stuffing.	Investors, lenders, regulators.
Cyber?Fraud	Phishing, ransomware, business?email compromise, account takeover.	Individuals, businesses, financial institutions.
Identity Theft	Unauthorized use of personal data to open accounts, obtain credit, or file taxes.	Consumers, employers, government.

3. Fraud Triangle (Core Motivational Model)

Component	Explanation	Typical Indicators
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Pressure (or Incentive)	Financial need, personal debt, performance targets, addiction, lifestyle expectations.	Sudden financial distress, unusually high personal expenses.
Opportunity	Weak internal controls, lack of oversight, complex transactions, access to assets.	Unreconciled accounts, segregation of duties not enforced.
Rationalization	Self-justification (“I’m just borrowing,” “I deserve this”).	Statements minimizing the wrongdoing, blaming the organization.

Modern extensions: **Fraud Capability** (skills/knowledge) and **Fraud Culture** (organizational attitudes) are sometimes added to form a “Fraud Pentagon”.

4. Fraud Risk Assessment (FRA) – A Step-by-Step Framework

1. **Identify Objectives** – What assets, processes, or financial statements need protection?
2. **Map Risks** – List potential fraud schemes for each objective (brainstorm, use fraud typologies).
3. **Evaluate Likelihood & Impact** – Use a risk matrix (e.g., Low/Medium/High) to prioritize.
4. **Assess Controls** – Determine existing preventive/detective controls and their effectiveness.
5. **Determine Gaps** – Identify where controls are missing or weak.
6. **Develop Action Plan** – Recommend control enhancements, monitoring procedures, and training.
7. **Monitor & Update** – Review risk assessments periodically (e.g., annually or after major changes).

Tip: Document the FRA in a matrix format for quick reference.

5. Investigation Process – The “Six-Step” Model

Step	Objective	Key Activities
1. Planning	Define scope, objectives, and resources.	Identify stakeholders, set timelines, secure legal authority.

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Step	Objective	Key Activities
2. Data Collection	Gather all relevant evidence.	Interviews, document review, electronic data extraction, observation.
3. Data Analysis	Detect anomalies & patterns.	Ratio analysis, trend analysis, data mining, forensic