

Audit & Accounting Alert Newsletter

ISSUE 6 | JUNE 2022

At-A-Glance

The specter of fraud has loomed over the business world for as long as there has been commerce. As fast as anti-fraud measures are developed, wrongdoers are at work to find new ways to defeat the protections. The Association of Certified Fraud Examiners checks in biennially to ascertain the current status of fraud in the world. This issue of the Audit & Accounting Alert highlights the 2022 edition of the report.

Our Worldwide Update is again split into two sections. The first covers COVID-19 news from organizations across the globe, while the second covers other news.



Gerald Herter - Editor

Fraud Group Releases Latest Results

Report shows gains, losses, and more of the same



Every two years since 1996, The Association of Certified Fraud Examiners (ACFE) has produced ***Report to the Nation on Occupational Fraud and Abuse***, a comprehensive analysis of the causes and effects of occupational fraud in the United States. The Audit & Accounting Alert last reported on the study in September 2018. The stated goal of the ACFE was to “compile detailed information about occupational fraud cases in five critical areas:

- The methods by which occupational fraud is committed,
- The means by which occupational frauds are detected,
- The characteristics of the organizations that are victimized by occupational fraud,
- The characteristics of the people who commit occupational fraud,
- The results of the cases after the frauds have been detected and the perpetrators identified.”

In 2022, the twelfth edition is based on survey data provided by certified fraud examiners (CFE) from 2,110 actual cases across 133 countries and 23 industry categories. While some results show dramatic improvement since the 2018 report, significant aspects of the fraud landscape are similar or have gotten more severe.

Consistent over the last few years, the median response by CFEs of the annual loss to organizations from fraud has been 5% of revenue. Applying that percentage to Gross World Product, the authors theorized that the potential cost of fraud worldwide is over \$4.7 trillion annually. In comparison, the first report in 1996 reported an annual amount of \$400 billion lost in the US alone, while in 2018 the global amount was \$4 trillion.

Owners/executives still account for a small percentage of cases, though up to 23% versus 19% in 2018. However, the median loss per case dropped from \$850,000 to \$337,000. The overall median loss of \$117,000 was slightly less than the \$130,000 in the prior report. Losses of \$1 million or more at 22% of cases was comparable to the past, while the average loss per case dropped by \$1 million to

\$1.7 million. Men are still the major perpetrators outdoing women by almost three to one, though the median losses caused by men were only 25% higher than for the women.

Asset misappropriation schemes accounted for a comparable 86% of the cases, but only incurred a median of \$100,000 in losses, while financial statement fraud schemes were present in only 9% of the cases but incurred about \$600,000 of median losses, a 25% improvement. Corruption appeared 50% of the time, sometimes in conjunction with one or both of the other two types, up from 38% in 2008.

The most common and costly asset misappropriation schemes entailed billing (shell company, personal purchases), theft of non-cash assets (larceny, false sales and shipping), expense reimbursements, and check and payment tampering (forged maker or endorsement, altered payee),.

The external independent audit, employed by 82% of companies in the study, continued to be the most common anti-fraud control. Still, only 4% of frauds were detected by routine audits, while tips were the most common detection method, representing about 40-43% in the last three studies. Furthermore, detection of fraud through tips was about 16% higher in companies that had hotlines. Employees were found to provide over 55% of the tips, followed by outside parties with almost a third. The figures in this paragraph and the next have not changed much since 2018.

Internal audits revealed 16% of frauds, while management review was responsible for detection of 12%. Overall, companies with anti-fraud controls in place still experienced lower fraud losses and quicker detection than companies without them. Other anti-fraud controls found in at least half of the companies surveyed included a code of conduct, management certification of financial statements, an independent audit committee, employee support programs, anti-fraud policies, and fraud training.

The top methods of concealing fraud in order of prevalence were:

1. Created fraudulent physical documents (39%)
2. Altered physical documents (32%)
3. Altered electronic documents or files (25%)
4. Destroyed physical documents (23%)
5. Created fraudulent electronic documents or files (28%)

Small businesses continue to be more susceptible to fraud, typically because of more limited resources for anti-fraud controls. While corruption, non-cash, financial statement fraud, and billing manipulation factors stand out much more at larger firms, most other factors, such as check & payment tampering, skimming, payroll, expense reimbursements, cash larceny, and cash on hand, plague smaller firms almost as much or more. Lack of, or overriding, internal controls were the biggest contributors to fraud.

Over half (57%) of victim organizations ran background checks. 21% of those background checks revealed warning signs, but the individuals were hired anyway. The checks were 10% higher than in

2018, but the instances of warning signs doubled.

Since the report was first initiated, the four most prevalent warning signs have always been 1) living beyond means, 2) financial difficulties, 3) unusually close association with a vendor or customer, and 4) excessive control issues or unwillingness to share duties

About 60% of perpetrators that were caught were terminated, while others face lesser punishment, and 7% were not punished at all. Owners or executives were much less likely to be punished as compared to other employees. The rate of criminal litigation has held steady over the past four years at 58%, while civil litigation has increased from 23% to 29%. Sufficient internal discipline was the most likely reason not to pursue litigation in 2022, while fear of bad publicity was most likely in 2018, and second most likely in 2022.

A major new emerging fraud category revealed in the 2022 report involves cryptocurrency schemes, which amounted to 8% of all cases. Significant types include bribery and kickback payments, conversion of misappropriated assets, laundering, misappropriation of cryptocurrency assets, and manipulation of cryptocurrency assets on financial statements.

Just as past reports have shown, the more things change, the more they remain the same. While methods and techniques change with the ongoing technological advancements in business operations, the underlying concepts driving motivations and prevention continue to endure. Persistent diligence both in developing effective anti-fraud techniques and in assuring an ethical and moral atmosphere will be critical in the never-ending race to stay abreast of malevolent fraudsters.

Further details can be found at [Occupational Fraud 2022: A Report to the Nations](#).

Worldwide Update



Periodic roundup of recent and upcoming actions and activities by auditing and accounting organizations throughout the world.

COVID-19 Related

International

IASB – International Accounting Standards Board (www.ifrs.org)

- Coronavirus Information and resources – link – <https://www.ifrs.org/news-and-events/2020/03/the-coronavirus-and-the-foundations-work/>

IFAC – International Federation of Accountants (www.ifac.org)

- COVID-19 Resources from IFAC's Network – link - <https://www.ifac.org/knowledge-gateway/series/COVID-19-resources-ifacs-network>

ACCA – Association of Chartered Certified Accountants (www.accaglobal.com/)

- Coronavirus Information and resources – link - <https://www.accaglobal.com/us/en/cam/coronavirus.html>
- **Update on the Coronavirus and Impact for Association Activities – link -** <https://www.cimaglobal.com/Members/Update-on-Coronavirus/>

CIMA – Chartered Institute of Management Accountants (www.cimaglobal.com)

- Update on the Coronavirus and Impact for Association Activities – link - <https://www.cimaglobal.com/Members/Update-on-Coronavirus/>

VRF- The Value Reporting Foundation (www.thevrf.org)

- The Value Reporting Foundation is the result of the merger of the International Integrated Reporting Council and the Sustainability Accounting Standards Board on June 9, 2021.

World Economic Forum – (www.weforum.org)

- The COVID Action Platform – link - <https://www.weforum.org/platforms/covid-action-platform> - focuses on three priorities: 1. Galvanize the global business community for collective action. 2. Protect people's livelihoods and facilitate business continuity. 3. Mobilize cooperation and business support for the COVID-19 response.

Africa, Europe, India, and the Middle East (AEIME)

FRC – Financial Reporting Council of the UK (www.frc.org.uk)

- FRC guidance for companies and auditors during COVID-19 crisis – link - <https://www.frc.org.uk/covid-19-guidance-and-advice>.

ICAEW - Institute of Chartered Accountants in England and Wales (<https://www.icaew.com/>)

- Coronavirus – updates – link - <https://www.icaew.com/insights/coronavirus>.

EFRAG – European Financial Reporting Advisory Group (www.efrag.org)

- *No new developments*

Americas, Asia, Australia and New Zealand (AAANZ)

AICPA – American Institute of Certified Public Accountants (www.aicpa.org)

- AICPA Coronavirus (COVID-19) Resource Center – link - <https://www.aicpa.org/news/aicpa-coronavirus-resource-center.html>

FASB – Financial Accounting Standards Board (www.fasb.org)

- FASB Response to COVID-19 – link - <https://www.fasb.org/COVID19>

GASB – Governmental Accounting Standards Board (www.gasb.org)

- GASB Response to COVID-19 – link - <https://www.gasb.org/COVID19>

COSO - The Committee of Sponsoring Organizations of the Treadway Commission (www.coso.org)

- *No new developments*

PCAOB – Public Company Accounting Oversight Board (www.pcaob.org)

- PCAOB Response to COVID-19 – link - <https://pcaobus.org/Pages/response-to-COVID-19.aspx>

SASB – Sustainability Accounting Standards Board (www.sasb.org)

- See The Value Reporting Foundation above.

SEC – Securities and Exchange Commission (www.sec.gov)

- SEC Coronavirus (COVID-19) Response – link - <https://www.sec.gov/sec-coronavirus-COVID-19-response>

CAANZ - Chartered Accountants Australia and New Zealand (<https://www.charteredaccountantsanz.com/>)

- Financial Reporting and Audit Guide: Financial reporting and audit issues stemming from COVID-19 – link - <https://www.charteredaccountantsanz.com/tools-and-resources/client-service-essentials/reporting/financial-reporting-and-audit-guide-financial-reporting-and-audit-issues-stemming-from-covid19>

Other Updates

International

IASB – International Accounting Standards Board (www.ifrs.org)

- *No new developments.*

IFAC – International Federation of Accountants (www.ifac.org)

- **International Public Sector Accounting Standards Board - Natural Resources**, consultation paper issued May 9, 2022, “considers the issues relating to the recognition, measurement, and presentation of natural resources by public sector entities.” Comment period ends October 17, 2022.
- **Global Priorities for Professional Accountants in Business and the Public Sector**, report published May 31, 2022, “summarizes the key insights and learnings from the discussions amongst this global group of business and finance leaders, drawing from their diverse experiences and expertise. Crafted from highlights of the discussion, the report features sections on: Accountants Enabling the Circular Economy, Championing an Integrated Mindset, Engaging with Audit Committees to Support Accountants Addressing New Responsibilities, [and] Enabling an Effective Public Sector Finance Workforce.”
- **Executing the Board’s Governance Responsibility for Integrated Reporting**, guidance published May 25, 2020, “highlights how boards execute their governance responsibility for integrated reporting and integrated reports.”

ACCA – Association of Chartered Certified Accountants (www.accaglobal.com)

- **Fintech state-of-play: opportunities for finance professionals**, report released May 30, 2022, “uncovers huge opportunities for accounting and finance professionals in fintech, using case studies to outline ten different job roles that their skillsets are ideally suited for. Fintech (financial technology) is a thriving and diverse sector covering a range of areas such as online or neobanks, payment systems, payment gateways / application programming interfaces (APIs), investment banking back-end infrastructure, insurtech, wealthtech and regtech. It also covers more cutting edge areas like central bank digital currencies, cryptocurrencies, and non-fungible tokens. However, the report, Fintech state-of-play: opportunities for finance professionals, also reveals challenges around cyber security risks, emerging standards and regulations around this new frontier, and provides recommendations to address them.”

CIMA – Chartered Institute of Management Accountants (www.cimaglobal.com)

- *No new developments.*

VRF - The Value Reporting Foundation (www.thevrf.org)

- *No new developments.*

IIRC - International Integrated Reporting Council (www.theiirc.org)

- See The Value Reporting Foundation above.

World Economic Forum – (www.weforum.org)

- *No new developments.*
-

Africa, Europe, India, and the Middle East (AEIME)

FRC – Financial Reporting Council of the UK (www.frc.org.uk)

- **Revised ISAs (UK) 200, 210, 220, 230, 240, 250A, 260, 265, 300, 320, 330, 402, 450, 500, 501, 505, 520, 530, 540, 550, 570, 580, 600, 610, 620, 700, 701, 720**, issued May 24, 2022, “amended to include conforming amendments arising from the revision of ISA (UK) 315 (Revised July 2020) Identifying and Assessing the Risks of Material Misstatement.”
- **FRED 80 Draft amendments to FRS 100**, application Guidance issued May 20, 2022, “proposes to update the Application Guidance to FRS 100 to reflect changes to company law and decisions on equivalence further to the UK’s exit from the European Union.” Comment period ends August 26, 2022.

ICAEW - Institute of Chartered Accountants in England and Wales (<https://www.icaew.com/>)

- *No New Developments*

EC – European Commission (<https://ec.europa.eu/>)

- *No New Developments*

EFRAG – European Financial Reporting Advisory Group (www.efrag.org)

- *No New Developments*
-

Americas, Asia, Australia and New Zealand (AAANZ)

AICPA – American Institute of Certified Public Accountants (www.aicpa.org)

- *No new developments*

FASB – Financial Accounting Standards Board (www.aicpa.org)

- *No new developments*

GASB – Governmental Accounting Standards Board (www.gasb.org)

- **Intersection of Environmental, Social, and Governance Matters with Governmental Accounting Standards**, released May 31, 2022, “to provide an overview of the intersection of ESG matters with the GASB’s authoritative guidance.”

COSO - The Committee of Sponsoring Organizations of the Treadway Commission (www.coso.org)

- *No new developments*

PCAOB – Public Company Accounting Oversight Board (www.pcaob.org)

- *No new developments*

SASB – Sustainability Accounting Standards Board (www.sasb.org)

- *No new developments*

SEC – Securities and Exchange Commission (www.sec.gov)

- *No new developments*

Additional A&A News

- [SPACs cause flood of restatements](#)
- [Blunted audit reforms risk “pick ‘n’ mix approach” to reporting](#)
- [Your Firm and Your Clients’ Data - Simplifying the Future of Accounting](#)
- [FASB plans new standards](#)
- [Audit quality indicators show importance of tone at the top](#)
- [SEC Commissioner Signals Need To Fulfill Mandate Of Sarbanes-Oxley Act](#)
- [Accounting Today's complete coverage of the coronavirus impact](#)
- [Accountancy Age's Resource on UK regulations on accountancy during coronavirus](#)
- [California CPA Society Coronavirus Resources and Information](#)
- [Accountingweb's Coronavirus Content Series](#)
- [Accountancy Daily Corona Virus Resources](#)
- [China Briefing's Coronavirus Insights for Your Business in China](#)

INTEGRA  INTERNATIONAL®
YOUR GLOBAL ADVANTAGE

Audit & Accounting Alert is a publication of Integra International intended to highlight emerging issues in the profession. The goal is to give Integra members an awareness of developments impacting the practice of Audit & Accounting enabling them to stay on the forefront of industry trends. This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

Editor Gerald E. Herter

Email: gerry.herter@integra-international.net

www.Integra-International.net

© 2021 Integra International. All Rights Reserved.

If you wish to stop receiving email from us, you can simply remove yourself by visiting <http://members.integra-international.net/members/EmailOptPreferences.aspx?id=60826092&e=khoray@g3cpa.com&h=26d3289043a4cebaff4a17a50e60e12a9bff1e57>.