

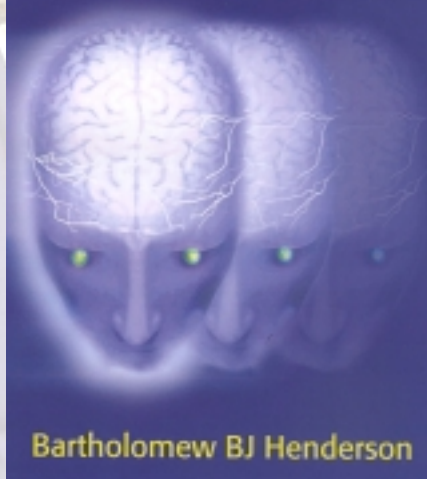
Volume

1

**SOUTH AFRICAN INSTITUTE OF CORPORATE
FRAUD MANAGEMENT**

The Henderson Fraud Red Flag Toolkit

fraudabc.com



Government and Business Best Practice

Red Flag (Diagnostic Toolkit)

South African Institute of Corporate Fraud Management Henderson Fraud Red Flag Toolkit



US Supreme Court

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For those of you who have decided to buy it – Congratulations
This thing rock and roll's – With this you can teach thousands of people at the same time and you can do it
– For practically nothing!

And do you know what? It is the most comprehensive model I can find anywhere in the world after looking for almost seven years.

If you have got as far as you are now... then carry on. You're not going to be disappointed.

Bart

'The... pure and simple truth... is rarely pure... and never simple!' – Oscar Wilde

Henderson Fraud Red Flag Toolkit



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Introduction



My best practices guide sets out to expose the Red Flags of employee theft and abuse and the steps required to determine whether the Red Flags in fact indicate fraud.

The methodologies are directly related to fieldwork.

It is a manager's handbook, a student's guide, a practitioner's reference and a government official's protection. There are approximately 76 'Red Flags' and over 400 rules divided into 7 modules.

It is the ABC of occupational fraud risk management based on compliance and performance audit management methodology. For software developers this is the definitive guide to a powerful data mining fraud prevention tool.

It is effective and can be easily assimilated in any company or Government Department. SAS Institute the worlds 5th largest software company finds the Henderson Fraud Risk Management Model is the most innovative, cost effective and comprehensive manual fraud data mining model in South Africa and possibly the world. The IIA lists a total of 50 'Red Flags' while the Henderson Model lists over 70. ALSO... there is no model in the world which actually includes investigation protocols.

This Best Practices Guide exceeds the limits of due diligence and IFRS.

Best wishes

Bart Henderson

'Sceptical scrutiny... is the means, in both science and religion, by which deep thoughts can be winnowed from deep nonsense'... - Carl Sagan



Fraudabc.com

YUP!

'Forensic audit and innovation crystallize into a single masterpiece of thinking.
- The practical value of this work could not be over-emphasized. Each and every forensic practitioner should have a copy of this work.'

Cornelius B van Wyk

President

South African National Society of Internal Auditors

'Proactive and practically directed coupled with contemporary thinking.'

Gordon Crundwell – Unit Manager (Fraud) Goldfields

'I found the presentation very intuitive and interesting. It was presented in such a way that the time flow and material were easy to take in (As easy as ABC!) Thank – you.'

Susan White – Accountant. BOSAL (Pty) LTD

'An excellent share of detailed information'

Steve Smit - Financial Services Manager (BHP Billiton)

'EXCELLENT - is an understatement!'

Menishka Moodley - Risk Officer. First National Bank

I told you so...

'There are no hard and fast rules... hard and fast rules are the product of cynicism, mediocrity and are the domain of dictators'... - **Bart Henderson**



7. Accounts Payable (Creditors)



Give me my moneyyyyyyyyyyyyyyy!

'Absence of proof... is not proof of absence'... – Michael Crichton



Sixteen specific attributes should alert you to the possibility of fraud in an accounts payable examination:

- Photocopied invoices.
- Invoices occurring in an unbroken consecutive sequence.
- Invoices that are produced entirely on dot-matrix or laser printers.
- Invoices appear similar except some areas appear 'deleted/blanked' out.
- Invoice amounts are always rounded.
- Invoice does not show a street address only a post office box.
- There is no telephone number for the vendor.
- The telephone number is either a residential number or is answered only by an answering machine.
- The amount of each invoice falls slightly below the threshold for review.
- The company has the same address as an employee.
- The company has the same phone number as an employee.
- Multiple companies have the same address and phone number.
- 'Knock-Off' Vendor names.
- Vendors that appear to be pushed by insiders.
- Vendors appear to have rumours circulating around their integrity.
- Vendors make frequent visits to purchasing or operating personnel.

Procedurally the following are the protocols for a forensic audit in the accounts payable environment:



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>a) Photocopied invoices</p> <p>1. If photocopied invoices are vendor specific, check frequency of occurrence.</p> <p>2. Check if any invoices reflect duplicate order no's.</p> <p>3. Check delivery notes against photocopied invoices.</p> <p>4. Check purchases/services descriptions against original order.</p> <p>5. Check picking list and warehouse dispatch notes against goods received notes/delivery notes and invoices.</p> <p>6. Check if purchases booked to inventory.</p> <p>7. If booked to inventory, do a physical inventory inspection.</p> <p>8. If goods booked out of warehouse or stores establish where same has been allocated.</p> <p>9. Establish whether a debit has been raised against that cost centre.</p> <p>10. If trail cannot be tracked to your satisfaction in all areas tick yes.</p> <p>Comments:</p>			<p>20</p>
<p>b) Invoices occurring in an unbroken consecutive sequence</p> <p>1. Use sample list of suspect vendors as identified by red flags listed under purchasing exercise and call up all original invoices over a pre-determined sample period.</p>			<p>20</p>



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>NB: You might also have specific reasons for sampling a Particular vendor.</p> <ol style="list-style-type: none"> 2. Check to see whether invoices are consecutive. 3. If invoices are consecutive undertake your own cost study by obtaining competitive quotes for the same goods or services. 4. Be absolutely certain to compare identical goods or services. 5. Cross reference vendor addresses with employee addresses from the payroll and vendor lists. 6. If common addresses occur tick yes and initiate investigation. 7. Check vendor details at the Registrar of companies. 8. If registered note the physical address. 9. Check the physical address against the employee payroll list. 10. Whether these match or not have the premises physically inspected. 11. Determine whether the vendor actually undertakes repairs and to specifications. 12. If work is outsourced determine reasons. 13. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor. 14. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation. 15. Source same type service vendors warranty claims for a 6-month period. 16. Compare warranty claim rate for same type service vendors. 			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>17. In certain instances due to unsafe, or, your violation of acceptable operating conditions vendors do not honour warranty claims. Check the ratio of successful claims against unsuccessful claims.</p> <p>18. If unsuccessful claims centre around a particular vendor tick yes and initiate a defalcation report and investigation.</p> <p>19. If discrepancies exist tick yes.</p> <p>Comments :</p>			
<p>c) Invoices that are produced entirely on dot-matrix or laser printers</p> <ol style="list-style-type: none"> 1. Check stock levels. 2. Check sales levels. 3. Check purchase levels. 4. Compare the ratio between the three using historic norms as a mean. 5. Are the ratios within reasonable parameters? 6. If the answer is no, tick yes. 7. Source last closed tenders. 8. Compare only last approved vendors with last six similar contracts awarded. 9. Does this mentioned trend appear? 10. Source 'same' service vendors <u>approved</u> for last full financial year. 			20



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
11. Cross-reference all addresses.			
12. Establish approval rate per vendor.			
13. Confirm if lowest bids were common			
14. Establish whether a rotational approval pattern exists			
15. If a rotational approval pattern exists tick yes.			
16. Draw approved vendor lists.			
17. Source all approved vendors for at least 5 random types of services.			
18. Check their respective total cost of invoice year to date.			
19. Compare the total value of awarded contracts per vendor per service			
20. If any particular vendor is receiving more than 20% of total work contracted than closest competitor tick yes and make further inquiries.			
21. Call up all existing vendors warranty claims related to type of repair that new vendor would be required to undertake.			
22. Check frequency of mechanical failure and related cost.			
23. Make inquiries related to cost of repair or part replacement at original equipment manufacturers and existing suppliers.			
24. Make comparison. If current vendors cost of service is deemed reasonable and fair tick yes and question new vendor appointment.			
25. The difference in cost should not exceed 12% between vendors.			
26. Cross reference vendor addresses with employee addresses from the payroll and vendor lists.			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
27. If common addresses occur tick yes and initiate investigation.			
28. Check vendor details at the Registrar of companies.			
29. If registered note the physical address.			
30. Check the physical address against the employee payroll list.			
31. Whether these match or not have the premises physically inspected.			
32. Determine whether the vendor actually undertakes repairs and to specifications.			
33. If work is outsourced determine reasons.			
34. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor.			
35. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation.			
36. Where more than one vendor supplies the same type of product or service compare prices.			
37. Compare turnaround time.			
38. Compare failure rates.			
39. Establish repair order originator in the cases of the excessive component repair costs.			
40. Establish whether excessive costs centre around one originator or more.			
41. Determine total work done value and calculate this work against what the total costs would have been at minimum repair value.			
42. Repeat the same exercise this time calculating what the maximum repair value could have been.			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
43. If total cost of repairs are 65% of maximum repair value tick yes and investigate further.			
44. Source same type service vendors warranty claims for a 6-month period.			
45. Compare warranty claim rate for same type service vendors.			
46. In certain instances due to unsafe, or, your violation of acceptable operating conditions vendors do not honour warranty claims. Check the ratio of successful claims against unsuccessful claims.			
47. If unsuccessful claims centre around a particular vendor tick yes and initiate a defalcation report and investigation.			
48. If photocopied invoices are vendor specific, check frequency of occurrence.			
49. Check if any invoices reflect duplicate order no's.			
50. Check delivery notes against photocopied invoices.			
51. Check purchases/services descriptions against original order.			
52. Check picking list and warehouse dispatch notes against goods received notes/delivery notes and invoices.			
53. Check if purchases booked to inventory.			
54. If booked to inventory, do a physical inventory inspection.			
55. If goods booked out of warehouse or stores establish where same has been allocated.			
56. Establish whether a debit has been raised against that cost centre.			
57. If trail cannot be tracked to your satisfaction in all areas tick yes.			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>58. If discrepancies exist tick yes.</p> <p>Comments:</p>			
<p>d) Invoices appear similar except some areas appear 'deleted/blanked' out.</p> <ol style="list-style-type: none"> 1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists. 2. If common addresses occur tick yes and initiate investigation. 3. Check vendor details at the Registrar of companies. 4. If registered note the physical address. 5. Check the physical address against the employee payroll list. 6. Whether these match or not have the premises physically inspected. 7. Determine whether the vendor actually undertakes repairs and to specifications. 8. If work is outsourced determine reasons. 9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor. 10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation. 11. Source same type service vendors warranty claims for a 6-month period. 12. Compare warranty claim rate for same type service vendors. 			<p>10</p>



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
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23. Establish whether a debit has been raised against that cost centre.			
24. If trail cannot be tracked to your satisfaction in all areas tick yes.			
Comments:			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>e) Invoice amounts are always rounded</p> <ol style="list-style-type: none"> 1. Cross reference vendor addresses with employee addresses From the payroll and vendor lists. 2. If common addresses occur tick yes and initiate investigation. 3. Check vendor details at the Registrar of companies. 4. If registered note the physical address. 5. Check the physical address against the employee payroll list. 6. Whether these match or not have the premises physically inspected. 7. Determine whether the vendor actually undertakes repairs and to specifications. 8. If work is outsourced determine reasons. 9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor. 10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation. 11. Source same type service vendors warranty claims for a 6-month period. 12. Compare warranty claim rate for same type service vendors. 13. In certain instances due to unsafe, or, your violation of acceptable operating conditions vendors do not honour warranty claims - Check the ratio of successful claims against unsuccessful claims 14. If unsuccessful claims centre around a particular vendor tick yes and initiate a defalcation report and investigation 			<p>10</p>



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<p>f) Invoice does not show a street address only a post office box</p> <p>1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists.</p> <p>2. If common addresses occur tick yes and initiate investigation</p>			<p>10</p>



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>3. Check vendor details at the Registrar of companies.</p> <p>4. If registered note the physical address.</p> <p>5. Check the physical address against the employee payroll list.</p> <p>6. Whether these match or not have the premises physically inspected.</p> <p>7. Determine whether the vendor actually undertakes repairs and to specifications.</p> <p>8. If work is outsourced determine reasons.</p> <p>9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor.</p> <p>10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation.</p> <p>11. Source same type service vendors warranty claims for a 6-month period.</p> <p>12. Compare warranty claim rate for same type service vendors.</p> <p>13. In certain instances due to unsafe, or, your violation of acceptable operating conditions vendors do not honour warranty claims. Check the ratio of successful claims against unsuccessful claims.</p> <p>14. If unsuccessful claims centre around a particular vendor tick yes and initiate a defalcation report and investigation.</p> <p>15. If photocopied invoices are vendor specific, check frequency of occurrence.</p> <p>16. Check if any invoices reflect duplicate order no's.</p> <p>17. Check delivery notes against photocopied invoices</p>			



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<p>g) There is no telephone number for the vendor</p> <p>1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists.</p> <p>2. If common addresses occur tick yes and initiate investigation.</p> <p>3. Check vendor details at the Registrar of companies.</p> <p>4. If registered note the physical address.</p> <p>5. Check the physical address against the employee payroll list.</p> <p>6. Whether these match or not have the premises physically inspected.</p>			<p>20</p>



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
7. Determine whether the vendor actually undertakes repairs and to specifications.			
8. If work is outsourced determine reasons.			
9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor.			
10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation.			
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21. If booked to inventory, do a physical inventory inspection.			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>22. If goods booked out of warehouse or stores establish where same has been allocated.</p> <p>23. Establish whether a debit has been raised against that cost centre.</p> <p>24. If trail cannot be tracked to your satisfaction in all areas tick yes.</p> <p>Comments:</p>			
<p>h) The telephone number is either a residential number or is answered only by an answering machine</p> <p>1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists.</p> <p>2. If common addresses occur tick yes and initiate investigation.</p> <p>3. Check vendor details at the Registrar of companies.</p> <p>4. If registered note the physical address.</p> <p>5. Check the physical address against the employee payroll list.</p> <p>6. Whether these match or not have the premises physically inspected.</p> <p>7. Determine whether the vendor actually undertakes repairs and to specifications.</p> <p>8. If work is outsourced determine reasons.</p> <p>9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor.</p>			<p>10</p>



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24. If trail cannot be tracked to your satisfaction in all areas tick yes.			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
Comments:			
<p>i) The amount of each invoice falls slightly below the threshold for review</p> <ol style="list-style-type: none"> 1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists. 2. If common addresses occur tick yes and initiate investigation. 3. Check vendor details at the Registrar of companies. 4. If registered note the physical address. 5. Check the physical address against the employee payroll list. 6. Whether these match or not have the premises physically inspected. 7. Determine whether the vendor actually undertakes repairs and to specifications. 8. If work is outsourced determine reasons. 9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor. 10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation. 11. Source same type service vendors warranty claims for a 6-month period. 12. Compare warranty claim rate for same type service vendors. 			20



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<p>23. Establish whether a debit has been raised against that cost centre.</p>			
<p>24. If trail cannot be tracked to your satisfaction in all areas tick yes.</p>			
<p>Comments:</p>			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>j) The company has the same address as an employee</p> <ol style="list-style-type: none"> 1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists. 2. If common addresses occur tick yes and initiate investigation. 3. Check vendor details at the Registrar of companies. 4. If registered note the physical address. 5. Check the physical address against the employee payroll list. 6. Whether these match or not have the premises physically inspected. 7. Determine whether the vendor actually undertakes repairs and to specifications. 8. If work is outsourced determine reasons. 9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor. 10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation. 11. Source same type service vendors warranty claims for a 6-month period. 12. Compare warranty claim rate for same type service vendors. 13. In certain instances due to unsafe, or, your violation of acceptable operating conditions vendors do not honour warranty claims. Check the ratio of successful claims against unsuccessful claims. 14. If unsuccessful claims centre around a particular vendor tick yes and initiate a defalcation report and investigation. 			<p>20</p>



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<p>k) The company has the same phone number as an employee</p> <p>1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists.</p> <p>2. If common addresses occur tick yes and initiate investigation.</p> <p>3. Check vendor details at the Registrar of companies.</p>			<p>20</p>



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
4. If registered note the physical address.			
5. Check the physical address against the employee payroll list.			
6. Whether these match or not have the premises physically inspected.			
7. Determine whether the vendor actually undertakes repairs and to specifications.			
8. If work is outsourced determine reasons.			
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18. Check purchases/services descriptions against original order.			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>19. Check picking list and warehouse dispatch notes against goods received notes/delivery notes and invoices.</p> <p>20. Check if purchases booked to inventory.</p> <p>21. If booked to inventory, do a physical inventory inspection.</p> <p>22. If goods booked out of warehouse or stores establish where same has been allocated.</p> <p>23. Establish whether a debit has been raised against that cost centre.</p> <p>24. If trail cannot be tracked to your satisfaction in all areas tick yes.</p> <p>Comments:</p>			
<p>I) Multiple companies have the same address and phone number</p> <p>1. Cross reference vendor addresses with employee addresses From the payroll and vendor lists.</p> <p>2. If common addresses occur tick yes and initiate investigation.</p> <p>3. Check vendor details at the Registrar of companies.</p> <p>4. If registered note the physical address.</p> <p>5. Check the physical address against the employee payroll list.</p> <p>6. Whether these match or not have the premises physically inspected.</p> <p>7. Determine whether the vendor actually undertakes repairs and to specifications</p>			<p>20</p>



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>8. If work is outsourced determine reasons.</p> <p>9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor.</p> <p>10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation.</p> <p>11. Source same type service vendors warranty claims for a 6-month period.</p> <p>12. Compare warranty claim rate for same type service vendors.</p> <p>13. In certain instances due to unsafe, or, your violation of acceptable operating conditions vendors do not honour warranty claims. Check the ratio of successful claims against unsuccessful claims.</p> <p>14. If unsuccessful claims centre around a particular vendor tick yes and initiate a defalcation report and investigation.</p> <p>15. If photocopied invoices are vendor specific, check frequency of occurrence.</p> <p>16. Check if any invoices reflect duplicate order no's.</p> <p>17. Check delivery notes against photocopied invoices.</p> <p>18. Check purchases/services descriptions against original order.</p> <p>19. Check picking list and warehouse dispatch notes against goods received notes/delivery notes and invoices.</p> <p>20. Check if purchases booked to inventory.</p> <p>21. If booked to inventory, do a physical inventory inspection.</p> <p>22. If goods booked out of warehouse or stores establish where same has been allocated.</p>			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>23. Establish whether a debit has been raised against that cost centre.</p> <p>24. If trail cannot be tracked to your satisfaction in all areas tick yes.</p> <p>Comments:</p>			
<p>m) 'Knock-Off' Vendor names</p> <ol style="list-style-type: none"> 1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists. 2. If common addresses occur tick yes and initiate investigation. 3. Check vendor details at the Registrar of companies. 4. If registered note the physical address. 5. Check the physical address against the employee payroll list. 6. Whether these match or not have the premises physically inspected. 7. Determine whether the vendor actually undertakes repairs and to specifications. 8. If work is outsourced determine reasons. 9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor. 10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation. 11. Source same type service vendors warranty claims for a 6-month period. 			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
12. Compare warranty claim rate for same type service vendors.			
13. In certain instances due to unsafe, or, your violation of acceptable operating conditions vendors do not honour warranty claims. Check the ratio of successful claims against unsuccessful claims.			
14. If unsuccessful claims centre around a particular vendor tick yes and initiate a defalcation report and investigation.			
15. If photocopied invoices are vendor specific, check frequency of occurrence.			
16. Check if any invoices reflect duplicate order no's.			
17. Check delivery notes against photocopied invoices.			
18. Check purchases/services descriptions against original order.			
19. Check picking list and warehouse dispatch notes against goods received notes/delivery notes and invoices.			
20. Check if purchases booked to inventory.			
21. If booked to inventory, do a physical inventory inspection.			
22. If goods booked out of warehouse or stores establish where same has been allocated.			
23. Establish whether a debit has been raised against that cost centre.			
24. If trail cannot be tracked to your satisfaction in all areas tick yes.			
Comments:			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>n) Vendors that appear to be pushed by insiders</p> <ol style="list-style-type: none"> 1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists. 2. If common addresses occur tick yes and initiate investigation. 3. Check vendor details at the Registrar of companies. 4. If registered note the physical address. 5. Check the physical address against the employee payroll list. 6. Whether these match or not have the premises physically inspected. 7. Determine whether the vendor actually undertakes repairs and to specifications. 8. If work is outsourced determine reasons. 9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor. 10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation. 11. Source same type service vendors warranty claims for a 6-month period. 12. Compare warranty claim rate for same type service vendors. 13. In certain instances due to unsafe, or, your violation of acceptable operating conditions vendors do not honour warranty claims. Check the ratio of successful claims against unsuccessful claims. 14. If unsuccessful claims centre around a particular vendor tick yes and initiate a defalcation report and investigation. 			<p>10</p>



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>15. If photocopied invoices are vendor specific, check frequency of occurrence.</p> <p>16. Check if any invoices reflect duplicate order no's.</p> <p>17. Check delivery notes against photocopied invoices.</p> <p>18. Check purchases/services descriptions against original order.</p> <p>19. Check picking list and warehouse dispatch notes against goods received notes/delivery notes and invoices.</p> <p>20. Check if purchases booked to inventory.</p> <p>21. If booked to inventory, do a physical inventory inspection.</p> <p>22. If goods booked out of warehouse or stores establish where same has been allocated.</p> <p>23. Establish whether a debit has been raised against that cost centre.</p> <p>24. If trail cannot be tracked to your satisfaction in all areas tick yes.</p> <p>Comments:</p>			
<p>o) Vendors appear to have rumours circulating around their integrity</p> <p>1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists.</p> <p>2. If common addresses occur tick yes and initiate investigation.</p> <p>3. Check vendor details at the Registrar of companies.</p>			<p>10</p>



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
4. If registered note the physical address.			
5. Check the physical address against the employee payroll list.			
6. Whether these match or not have the premises physically inspected.			
7. Determine whether the vendor actually undertakes repairs and to specifications.			
8. If work is outsourced determine reasons.			
9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor.			
10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation.			
11. Source same type service vendors warranty claims for a 6-month period.			
12. Compare warranty claim rate for same type service vendors.			
13. In certain instances due to unsafe, or, your violation of acceptable operating conditions vendors do not honour warranty claims. Check the ratio of successful claims against unsuccessful claims.			
14. If unsuccessful claims centre around a particular vendor tick yes and initiate a defalcation report and investigation.			
15. If photocopied invoices are vendor specific, check frequency of occurrence.			
16. Check if any invoices reflect duplicate order no's.			
17. Check delivery notes against photocopied invoices.			
18. Check purchases/services descriptions against original order.			



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>19. Check picking list and warehouse dispatch notes against goods received notes/delivery notes and invoices.</p> <p>20. Check if purchases booked to inventory.</p> <p>21. If booked to inventory, do a physical inventory inspection.</p> <p>22. If goods booked out of warehouse or stores establish where same has been allocated.</p> <p>23. Establish whether a debit has been raised against that cost centre.</p> <p>24. If trail cannot be tracked to your satisfaction in all areas tick yes.</p> <p>Comments:</p>			
<p>p) Vendors make frequent visits to purchasing or operating personnel</p> <p>1. Cross reference vendor addresses with employee addresses from the payroll and vendor lists.</p> <p>2. If common addresses occur tick yes and initiate investigation.</p> <p>3. Check vendor details at the Registrar of companies.</p> <p>4. If registered note the physical address.</p> <p>5. Check the physical address against the employee payroll list.</p> <p>6. Whether these match or not have the premises physically inspected.</p> <p>7. Determine whether the vendor actually undertakes repairs and to specifications.</p>			<p>10</p>



RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>8. If work is outsourced determine reasons.</p> <p>9. If physical address cannot be determined via the Registrar attempt to gain it directly from vendor.</p> <p>10. If this fails generate recommendation for payments to vendor in question to cease and recommend an investigation.</p> <p>11. Source same type service vendors warranty claims for a 6-month period.</p> <p>12. Compare warranty claim rate for same type service vendors.</p> <p>13. In certain instances due to unsafe, or, your violation of acceptable operating conditions vendors do not honour warranty claims. Check the ratio of successful claims against unsuccessful claims.</p> <p>14. If unsuccessful claims centre around a particular vendor tick yes and initiate a defalcation report and investigation.</p> <p>15. If photocopied invoices are vendor specific, check frequency of occurrence.</p> <p>16. Check if any invoices reflect duplicate order no's.</p> <p>17. Check delivery notes against photocopied invoices.</p> <p>18. Check purchases/services descriptions against original order.</p> <p>19. Check picking list and warehouse dispatch notes against goods received notes/delivery notes and invoices.</p> <p>20. Check if purchases booked to inventory.</p> <p>21. If booked to inventory, do a physical inventory inspection.</p> <p>22. If goods booked out of warehouse or stores establish where same has been allocated.</p>			

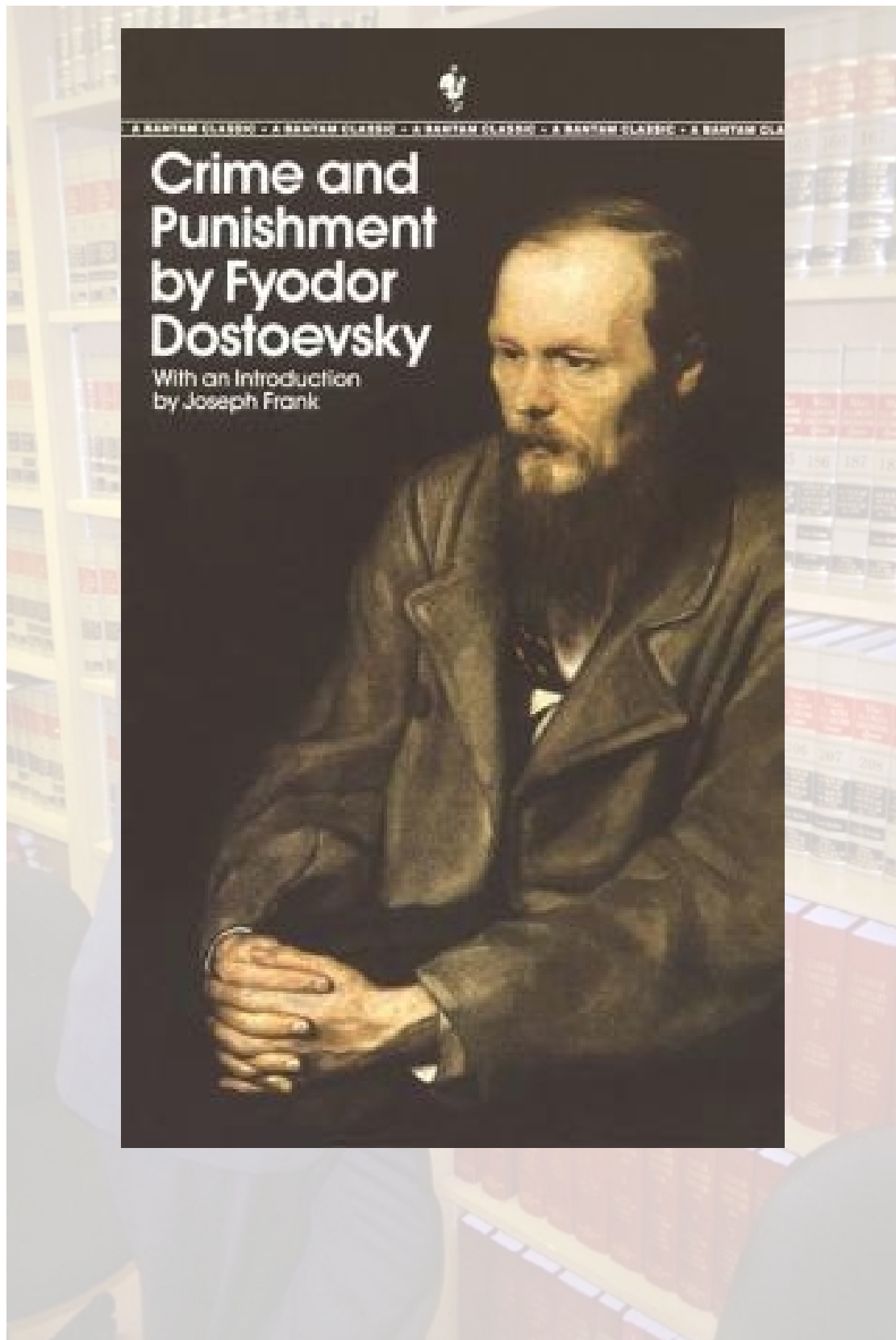


RED FLAG CHECKLIST – Accounts Payable (Creditors)	YES	NO	IF YES SCORE
<p>23. Establish whether a debit has been raised against that cost centre.</p> <p>24. If trail cannot be tracked to your satisfaction in all areas tick yes.</p> <p>Comments:</p>			
<p>TOTAL RISK FACTOR:- SCORE X 100 ÷ 240 = %</p>			<p>240</p>





How to interpret scores / ratings





Once you have completed each section and arrived at a total score by adding up all the points which have been allocated to the various exercises the following should apply:

Any score below 30% per section.

In all probability will require a corrective action report and follow-up. In other words it is suggested you perhaps consider identifying in your report factors which may contribute to the few risk factors that do exist such as staff negligence, lack of skills or training, department capacities etc.

Any score over 30% but below 50% per section.

This score requires a closer scrutiny of that section. Sections falling into this category will be starting to reflect unacceptable levels of risk. Even if actual fraud evidence is not present or found to be present your report should call for that department to meet an action plan to remedy the risk exposures as a matter of some immediacy.

Any score exceeding 50% per section.

This score will probably require a major defalcation report. It will in all probability mean that the risk levels in that area are unacceptable to the extent that major control process violations have occurred.

From a budget and capacity planning and allocation point of view it is certainly suggested you motivate for time and resource to look more closely into the relevant sections dealings, especially if your focus during the exercise was only to determine fraud risk.

Any score over 60% per section.

Means in all probability that you have already uncovered a fraud – If you have not then it is suggested you re-visit the section in question and re-focus your attentions on the risk factors as a priority. Bring your lunch box along; you may be there for a while.



End of story!

Almost... -

"An auditor who wears two hats is an aberration of nature. In order to wear two hats you must have two heads. While I haven't met too many auditors with two heads I've met quite a few wearing two hats. Perhaps Sarbanes-Oxley is intended as a radical surgical procedure to remove one of the heads so the afflicted can live normal lives? As these procedures go the patient is almost always at great risk... but some brave ones are prepared to take the chance. Those who are spiritually corrupted pretend normalcy and promote the sanctity of historical norm "... **Bart Henderson**