

WHY ORGANISATIONS SHOULD HAVE AN FE FUNCTION

(FRAUD EXAMINATION FUNCTION)



To understand the concept of fraud, it is necessary to understand why people commit fraud. Donald Cressey's Fraud Triangle is a model that explains just that. According to this model, there must be three elements present for fraud to occur, namely Pressure, Rationalisation and Opportunity.

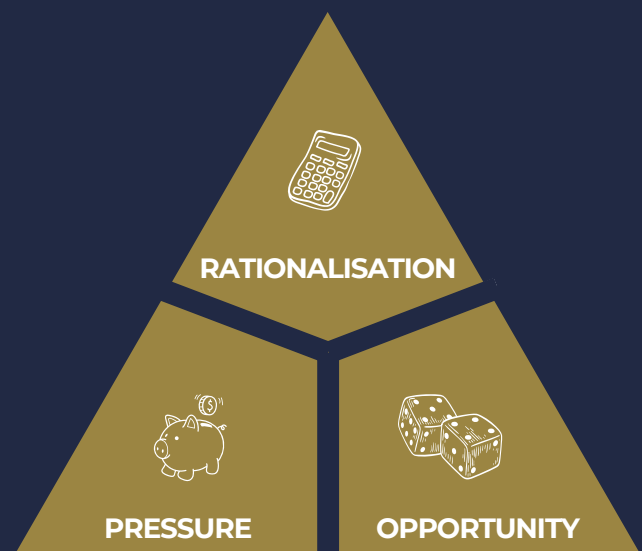
Firstly, there needs to be a form of pressure present. This is usually financial pressure (need or greed) but it could also be emotional pressure, for instance by a family member. Secondly the person needs to be able to rationalise their behaviour. This could be done by telling themselves "the organisation isn't paying me enough, therefore I have to make up the deficit by committing this fraud" or "it will

only be this one time". The third element that needs to be present is opportunity. Research has shown that this is the most important element and therefore the area on which entities should concentrate their fraud prevention efforts. There could be a lot of pressure on a person to commit fraud and they could be able to justify it for themselves, but if there is no opportunity, then the fraud cannot take place.

Any fraud prevention strategy should include the elements of Fraud Prevention, Fraud Detection and Fraud Investigation. Fraud can be prevented through various means, for instance by eliminating conflicts of interest, fraud awareness training and regularly screening employees. Fraud detection will take place easier if employees are aware of what fraud is and what they should look out for. Fraud detection can also take place through whistleblower hotlines, regular audits and management oversight. Fraud investigation takes place after a fraud has been detected. This should be done by a dedicated and competent section of the organisation, or alternatively by a reliable and trusted outsourced entity.

The Report to the Nations is the largest global study on occupational fraud and is released annually by the Association of Certified Fraud Examiners (ACFE). Statistics in the most recent The Report to the Nations that was published in February 2023, show that 5% of any company's revenue is lost to fraud. In Government, revenue can be replaced with the amount of money that the Department or entity receives per year to conduct its business in order to deliver its products and services. In South Africa this equates to a loss of R209 billion annually, an amount with which approximately 41 million houses could have been built.

No company, organisation or entity is immune to the occurrence of fraud. Fraud is defined as the unlawful and intentional making of a misrepresentation which causes actual prejudice or is potentially prejudicial to another.



The whole fraud prevention strategy could be executed by a Fraud Examination (FE) function in the organisation. This is in line with the recommendations of the King IV report, where an internal or external FE function is recommended as best practice.

The FE function should consist of a multi-disciplinary team of experts, which should include forensic examiners and ethics officers. The ideal would be to have Certified Fraud Examiners (CFEs) as part of the team, as they are well-qualified professionals with expert knowledge of the detection, deterrence, and investigation of fraud.

To become a CFE, an individual needs to be an associate member of the Association of Certified Fraud Examiners in good standing and have a B-degree on NQF level 7 as well as two years relevant experience. However, if the person doesn't have a qualification, they need to have ten years relevant experience in order to qualify for the exam. The exam consists of four modules, namely Fraud detection and deterrence, Law, Financial transactions, and Investigations. All four modules must be passed with a minimum of 75% to obtain the professional designation of Certified Fraud Examiner. Being a professional designation, it needs to be maintained by obtaining at least 20 Continuing Professional Education points per year, which equals approximately 20 hours of relevant anti-fraud and ethics training. This could be obtained by attending training events that are held by the Association of Certified Fraud Examiners, both the international and South Africa chapter.



The Association of Certified Fraud Examiners is an international organisation with approximately 90,000 registered members in more than 180 countries across the world. The CFE designation is therefore an internationally recognised designation and in South Africa it is also a qualification on NQF level 7 (B-degree level) registered on the South African Qualifications Authority (SAQA) framework. Being a member of this professional body has various benefits, such as networking opportunities with like-minded people in the industry and discounts on certain products and services. Being a Certified Fraud Examiner means that you are part of the cream of the crop of a professional body. This is a sought-after designation and a pre-requisite for many advertised positions.

Understanding the importance of having an FE function with qualified Fraud Examiners in an organisation, is a valuable first step towards the reduction of fraud, and eventually the conquering and elimination thereof, in an organisation. Please feel free to contact ACFE SA for more information: membership@acfesa.co.za



BY
Roxane Ferreira, CFE